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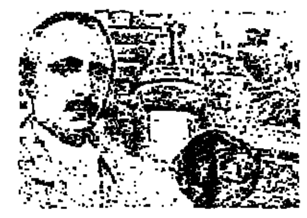

TOMORROW'S
Weekend FT
Schliemann's fantastic adventures

World Business Newspaper — FRIDAY JUNE 2 1995 — D8523A

5,800 jobs to go as Kmart closes another 72 stores

US discount store group, Kmart announced it plans to close another 72 stores and shed 5,800 jobs, between August and the end of the year. The latest retrenchment comes on top of the cuts announced last September when Kmart said it was closing 110 discount stores with the loss of 6,000 jobs. It also plans to cut its management workforce by 10 per cent. Page 15

Toyota to cut graduate intake: Toyota, Japan's leading carmaker, is to cut recruitment of university graduates next spring by about 30 per cent. The decision reflects mounting pressures on the domestic car industry in the face of the yen's sharp rise and the risk tariffs on luxury cars exported to the US. Page 14

Protesters throw eggs at Prince Charles:

Republican protesters threw eggs at the Prince of Wales during a royal walkabout in the centre of Dublin (above). The eggs missed the prince, who continued his tour of Dublin's Trinity College. Three young men, wearing republican ribbons, were arrested.

Siebe announces $432m profit: Siebe, the UK controls group, announced a 27 per cent increase in profits to £275.1m ($432m) in the year to April 1, amid record demand for industrial controls and temperature appliances and an improved performance by Foxboro, its US subsidiary. Page 15; Lex, Page 14

Japanese whaling request refused: Japan's request to resume small-scale commercial whaling has been refused, in spite of signs that the international community is softening its attitude to the Japanese demand. Page 7

France to cut Usinor stake: The French government is expected to reduce its stake in steelmaker Usinor Sacilor to below 10 per cent as part of its privatisation, while a group of core investors will hold about 15 per cent of its shares. Page 15

S.G. Warburg's $1.35bn sale approved: The sale of S.G. Warburg's investment banking businesses to Swiss Bank Corporation for £860m ($1.35bn) was agreed at a shareholders meeting in spite of strong criticism of the UK bank's management from a former board director. Page 20

Oryx sells oil stake for $270m: Dallas-based oil explorer, Oryx Energy, has concluded the largest asset sale this year in the UK sector of the North Sea, selling its 15.5 per cent stake in the Alba oil field to Union Texas Petroleum for $270m. Page 16

Third fall in US factory orders Orders to US factories fell by 1.9 per cent in April, the biggest drop for nine months and the first time in nearly two years that orders have fallen for three consecutive months. Page 6

Row over Russian quake aid: Distrust between Japan and Russia intensified with a row over Japan's offer of aid for victims of the earthquake in the far eastern island of Sakhalin. Page 5

China trade dominance predicted: By 2005 China will be the world's second largest economy, in the top half-dozen trading economies and the largest trading partner of each of its neighbours, according to a study by the Australian National University. Page 5

Royal Bank of Canada earnings up 11%: Royal Bank of Canada lifted second-quarter earnings by 11 per cent to C$304m (US$223m), aided by a sharp drop in loan-loss provisions and higher income from some fee-based services. Page 18

Honda executives guilty of bribery: Two former executives of American Honda were found guilty of accepting more than $15m in kickbacks from Honda dealers in a nationwide bribery scheme. Page 6

Norway hit by flooding: The Norwegian government set up a crisis group to help combat the worst floods to hit the country for 125 years. Melting snow and heavy rains have flooded rivers, cutting off roads, covering farmland and isolating districts in south-eastern Norway north of Oslo.

■ STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	4,456.15	(-8.99)
NASDAQ Composite	868.82	(+4.04)
Europe and Far East		
CAC40	1,989.8	(+12.85)
DAX	2,126.28	(+34.21)
FT-SE 100	3,340.6	(+21.2)
Nikkei	15,594.57	(+157.78)

■ US LUNCHTIME RATES	
Federal Funds	6⅛%
3-mth Treas Bills: Yld	5.702%
Long Bond	113¾
Yield	6.586%

■ OTHER RATES		
UK: 3-mo Interbank	6⅞%	(6⅞%)
UK: 10 yr Gilt	104¼	(104⅜)
France: 10 yr OAT	100.59	(100.3)
Germany: 10 yr Bund	101.89	(101.59)
Japan: 10 yr JGB	110.228	(110.152)

■ NORTH SEA OIL (Argus)		
Brent 15-day (Jul)	$17.86	(17.48)

■ GOLD		
New York: Comex		
(Aug)	$388.3	(387.6)
London:		
close	$384.3	(384.15)

■ DOLLAR		
New York: lunchtime		
£	1.597	
DM	1.41375	
FFr	4.96725	
SFr	1.1669	
Y	84.755	
London:		
£	1.5911	(1.5886)
DM	1.4233	(1.413)
FFr	4.9995	(4.9709)
SFr	1.1745	(1.1675)
Y	85.1	(84.645)

■ STERLING		
DM	2.2645	(2.2447)
Tokyo close:	Y 84.90	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft165	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lev110.00	Iceland	IKr220	Nigeria	Naira60	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	CZK55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Peso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00
Finland	FM15	Kuwait	Fils625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr10.50	Lebanon	US$1.50			Turkey	L55,000
Germany	DM3.20	Lux	LFr70			UAE	Dh12.00

Britain sees important role for Russia in resolving UN hostage crisis

Congress resists Clinton over US troops in Bosnia

By Jurek Martin in Washington, Laura Silber in Belgrade and Bruce Clark in London

Prospects of closer US involvement in Bosnia dimmed last night as President Bill Clinton faced a mounting challenge from Congress to the idea of sending troops to help the United Nations peacekeeping force redeploy.

Britain and France also reacted cautiously to Mr Clinton's initiative, presented in Washington as a gesture of solidarity with two European allies following the capture of nearly 400 hostages by the Bosnian Serbs. However, Britain welcomed signs of greater involvement in the crisis by Russia.

Several prominent US legislators said they would agree to the US providing help in the event of a total withdrawal of the UN from Bosnia, but not in any other circumstances.

Senator Jesse Helms, chairman of the foreign relations committee, criticised Mr Clinton for setting the stage for the involvement of US ground forces.

"The UN mission is Bosnia has failed," he said. "It must be withdrawn and the US should not refuse to assist in its withdrawal. But in no way should American soldiers be sent to Bosnia for any reason other than assisting in such a withdrawal."

The US administration has refused to contribute ground troops to the UN peacekeeping effort in Bosnia, but it has recently stressed it is keen to see the UN presence maintained.

European governments have consistently argued that withdrawal, as advocated by US Republican leaders, would lead to a significant escalation in the conflict.

Mr Hervé de Charette, French foreign minister, said Mr Clinton's offer of military assistance "deserves serious attention", and added that Paris was refining its own proposals for putting the UN force in Bosnia "in a military posture" with greater firepower.

Senior British officials said the US offer, while appreciated, had not come in response to any overtures from Europe, and it was unlikely to be taken up in the immediate future.

The US administration said on Wednesday that it was willing to come to the aid of Britain and France if they got into difficulty in the course of reorganising their forces in Bosnia.

Russia yesterday praised Mr Boutros Boutros Ghali, UN secretary-general, for raising the possibility that the UN force in Bosnia could switch to a purely humanitarian operation which avoided the use of military force.

Moscow has urged Nato to limit armed intervention against the Serbs, its traditional allies.

"We agree with the secretary-general that Unprofor [the UN Protection Force] is not prepared to, and must not wage war in Bosnia," said Mr Grigory Karasin, a Russian foreign ministry spokesman. "They are not an army sent to fight one side in the Bosnian conflict."

Mr Douglas Hurd, UK foreign secretary, welcomed the prospect of closer involvement in the hostage crisis by Russia, whose government has warned against the draconian use of force in Bosnia by the Western powers.

"It is important on this and other matters to re-engage the Russians," Mr Hurd said, adding that a visit to London next week by Mr Andrei Kozyrev, foreign minister, would "help to keep the Russians close" in efforts to resolve the crisis.

Fighting yesterday erupted round Gorazde, the Moslem enclave in eastern Bosnia, where 33 British peacekeepers have been taken captive and more than 300 others are in danger of being stranded.

A UN spokesman said the fighting started early in the morning on the east bank of the River Drina, which runs through Gorazde. "There's been quite intense fighting ... and the town itself is being shelled," the UN official said.

Lord Owen (above), who has just announced his retirement as EU mediator in former Yugoslavia, called yesterday for reform of the UN Security Council. Interview, Page 12 Picture: Tony Andrews

Poland awarded credit rating by agencies

By Graham Bowley in London and Christopher Bobinski in Warsaw

Poland was yesterday awarded its first investment grade credit rating by Moody's, the international rating agency. The rating, the first assigned to a country that has negotiated a debt forgiveness package with bank lenders, will pave the way for the country's debut eurobond offering this month.

However, Standard & Poor's, the other large US rating agency, and IBCA, the European agency, yesterday chose to assign only sub-investment grade ratings to Poland. The country won a debt reduction deal from banks last year under the so-called Brady plan, which cleared a 13-year default.

The Czech Republic remains the only former communist country to enjoy investment grade rating from all three rating agencies, although Slovakia was last month awarded the lowest investment grade rate by Moody's alone.

Moody's awarded Poland a Baa3 rating for its foreign currency denominated debt, the agency's lowest investment grade rating. This puts Poland ahead of Hungary, on par with Greece and South Africa, but below the Czech Republic.

IBCA gave Poland a BB+ rating, while S&P assigned a BB rating with a positive outlook. S&P stressed the country's "complex and uncertain political situation" in its decision. "We need to have a longer track record," the company said. However, S&P said that continued progress in economic reforms could result in an upgrade as early as next year.

Financial markets reacted favourably to the announcement, with Polish debt traded internationally rallying strongly.

In London trading, Poland's Past Due Interest Rate (PDI) bonds jumped 2.5 points after the announcement to 54½.

"Initially traders were stunned by the difference in views between the agencies but then the reaction has been positive," said Mr Dirk Damrau, director of

Continued on Page 14

VW rejects legal action against former chief

By Christopher Parkes in Frankfurt

Volkswagen has backed away from taking legal action against a former top executive, saying the group's reputation might be severely damaged if it were to lose the case.

Mr Klaus Liesen, VW supervisory board chairman, told shareholders yesterday that Mr Juan Antonio Díaz Alvarez, former head of Seat, had failed to manage VW's Spanish subsidiary properly. An investigation of a large loss at Seat in 1993 by auditors from Arthur Andersen concluded Mr Díaz Alvarez had not fulfilled his reporting responsibilities to the whole VW board, Mr Liesen told the annual meeting.

However, the company decided not to seek damages because Mr Díaz Alvarez's loyalty was not at issue, and the chances of success in the courts could not be predicted, he said.

The possibility of winning financial redress had to be weighed against the risk of a "considerable loss of reputation" for VW, if the judgment went against it, Mr Liesen said.

Instead of legal action, the supervisory board – which is responsible for the appointment and behaviour of the top management – recommended that the annual meeting should register its feelings by withholding formal approval of Mr Díaz Alvarez's conduct. The annual *Entlastung* of top managers is a traditional part of proceedings at German company meetings and is usually nodded through.

Mr Liesen's statement marked a formal retreat from the aggressive position taken by Mr Ferdinand Piëch, the group's chairman. Mr Piëch said early last year, after the removal of Mr Díaz Alvarez and most of his Spanish colleagues, that in his view the VW board had been deliberately misinformed. He believed "penal consequences" could follow.

Mr Liesen's remarks appeared designed to draw a line under events at Seat which devastated Mr Piëch's early attempts to restore VW's fortunes, and put an end to at least one of the controversies dogging the group.

The last head to roll in the wake of the affair was that of Mr Werner Schmidt, group finance director, who left last September, shortly after Mr Piëch received the auditors' report.

Referring to the two-year-old criminal investigation of industrial espionage allegations against production director, Mr

Continued on Page 14

Volkswagen wants to sell its 50 per cent stake in the Europcar rental business, Mr Bruno Adelt, chief financial officer, told the annual meeting yesterday.

Europcar, which last year lost a net DM34m ($24.1m) following an after-tax deficit of DM29m in 1993, did not belong among the group's core interests, he said.

The disposal might go ahead quickly but there was at present no relevant bidder to whom a sale would make economic sense, he added.

Chirac criticised as Longuet resigns over spending plans

By David Buchan in Paris

Mr Gérard Longuet yesterday announced his resignation as head of the Republican party – the second largest element of France's ruling coalition.

In a sharply worded resignation letter, Mr Longuet said the government's "spending [plans] are more solidly established than reforms to fund this spending". He went on to complain that President Jacques Chirac had failed to reward his Republican party supporters, who had eventually helped him to victory, by giving them any major jobs in the Juppé government.

Government officials quickly rejected this as Mr Longuet's bitter reaction to being forced out of public life by corruption allegations. Mr Longuet quit last year as industry minister in the previous Balladur government, and yesterday's resignation from the top Republican party job had long been expected. But Mr Longuet's criticism on economic policy coincides awkwardly with signs that the government of Mr Alain Juppé faces a harder task than it originally expected in carrying out its pledge to reduce public borrowing further in its promised 1995 budget revision later this month.

According to Le Monde newspaper yesterday, the budget ministry has warned the incoming Juppé administration that lower than anticipated tax receipts so far this year threaten to increase the Balladur government's estimate of a FFr275bn ($54bn) budget deficit for 1995 by a further FFr25bn.

Mr Juppé's office dismissed the deficit over-run figure cited by Le Monde, but admitted that the present pattern of France's economic growth – led by growth in exports and investment – was yielding relatively little tax revenue. Mr Juppé has signalled his intention to raise value added tax, but investments and exports outside the European Union are in any case exempt from VAT.

The Juppé government has also further limited its room for budget manoeuvre by pledging to use the proceeds from the sale of state companies – such as the Usinor steel group whose privatisation was announced earlier this week – to reduce public debt.

Mr Longuet's resignation leaves another disgruntled ex-Balladurian, Mr François Léotard, free to regain the post of Republican party president. Mr Alain Madelin, a Republican party vice-president who is a strong Chirac supporter, might challenge Mr Léotard for the party job, but he has plenty on his hands already as the new finance minister.

If Mr Léotard regains control of the Republican party, he may in time become a serious thorn in the government's side.

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EU returns to launch pad for take-off

Lionel Barber previews this weekend's meeting in Messina on the Union's constitutional future

1995 Countdown to 1996

The European Union will today launch fresh negotiations on its constitutional future in the portentous setting of Messina in Sicily.

It was there, 40 years ago, that representatives of France, Germany, Italy and the Benelux countries made common cause and laid the groundwork for the Treaty of Rome. Britain failed to take the project seriously, lost the moral leadership of the continent, and spent the next 15 years trying to join the European Economic Community.

The Italian hosts' choice of Messina sends a calculated message before next year's intergovernmental conference (IGC) to review the Maastricht treaty. "It is an indication of our ambitions," says Mr Silvio Fagiolo, a senior Italian diplomat. "We cannot get away with minimal solutions and small adjustments."

For the maximalists led by Germany, the IGC must tackle the challenge of redesigning the Union so that it expands to central and eastern Europe and copes with upwards of 25 members. For the minimalists led by Britain, the conference must avoid another Great Leap Forward toward political integration.

> **GERMAN ATTITUDE TO INTEGRATION**
>
> *From Our Own Correspondent*
>
> BONN, May 31.
>
> At to-morrow's meeting at Messina, Sicily, of Foreign Ministers of the European Coal and Steel Pool, Germany will submit plans for closer co-operation of the six nations concerned. ...
>
> Germany will declare her willingness to aim at further economic integration, which, it is held, should proceed along functional lines or, as it is called here, "by horizontal integration," and not by adding more and more branches of industry to the Coal and Steel Pool.
>
> Germany would like to have a joint policy of the six countries in matters of tariffs and currency; to gradually level out existing differences in social insurance and related matters; and to co-operate very closely in atomic energy. ...
>
> From the Financial Times May 31 1955

To suggest a new showdown over the EU's future is premature. The present posture of member states, and of the European Commission, is to lower expectations and the political temperature. The task of preparing the 1996 agenda falls to an innocuous-sounding body called the Reflection Group which convenes with EU foreign ministers today to celebrate the 40th anniversary of the Messina conference. The group's inaugural meeting takes place tomorrow in nearby Taormina.

The group comprises representatives of the 15-member states, several of whom (including Mr Fagiolo) are veterans of Maastricht. The European parliament will be represented by Mr Elmar Brok, a Christian Democrat close to Chancellor Helmut Kohl, and Mrs Elisabeth Guigou, a Socialist veteran of the Maastricht negotiations. Mr Marcelino Oreja will speak for the European Commission.

The first question is how long the group intends to remain in operation. The Spanish, who take over the rotating EU presidency from France on July 1, want a report delivered to the Madrid summit in December. The tight timetable virtually guarantees that the document will contain options and dissenting opinions; this may require the group to continue work next year.

The snag is that Italy covets the prestige of launching the IGC during its presidency which begins on January 1. The prize may be difficult to deny to a founder member whose recent political and economic troubles have left it somewhat marginalised in EU diplomacy; but other member states, notably Germany, are reluctant to start the IGC too soon.

Their calculation is that it will hard, maybe impossible, to strike a deal with Britain because Tory Euro-sceptics continue to exert disproportionate influence over UK foreign policy toward Europe. The consensus in Brussels is that the conference will stretch beyond the next UK general election, which must take place before April 1997. The hope is that the next government will be more amenable to compromise, though no one is betting the farm on the Labour party.

The second question concerns enlargement, and it implies a judgment on how many of the central and eastern European countries are likely to be in the first wave of accession, possibly around 2000. "We don't know whether we should be designing a Union for 18 members or 25 members," says a senior Commission official. "It makes a big difference."

With a Europe of 18 members, it might be possible to get away with tinkering with the institutions. But a Union of 25 requires reducing the number of commissioners (presently an unwieldy 20) and of MEPs (626). More important, it guarantees the dilution of the national veto.

> ***Ristorante Messina***
>
> *MEALS FOR THE MAJORITY – DINERS DO HAVE AN OPT-OUT*
>
> Foreign policy and defence co-operation
>
> Open decision-making
>
> The use of the veto
>
> European parliament's powers
>
> Justice and immigration
>
> Preparation for EU enlargement
>
> *All major credit cards and Ecus accepted*

The third question concerns policy. Without some agreement on reform of the regional aid budget and the common agricultural policy, enlargement to eastern Europe cannot take place because the costs would be prohibitive. Yet, to change the present system requires a new bargain between the rich north and poor agricultural south.

This is a reminder that Britain will not be alone in facing difficulties in the Reflection Group and later at the IGC. The neutrally minded EU newcomers – Austria, Finland and Sweden – will also be in for a tough baptism, particularly on defence.

Mr Paavo Lipponen, the Finnish prime minister, gave a hint recently when he complained about the lack of political control over the Western European Union, the fledgling EU defence arm which France and Germany want to strengthen into an operational European pillar of the Nato alliance. Like the Swedes, the Finns are wary of being drawn into a bloc against neighbouring Russia.

But these are early days. The trade-offs and bargains in the IGC have barely been identified, let alone struck.

Messina will be part political theatre, but the meetings and speeches may also offer some clues about the long road ahead.

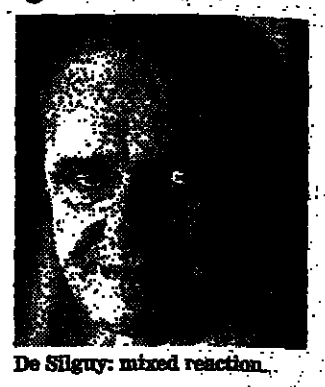
Editorial comment, Page 17

Corporate treasurers conference

Concern over transition to monetary union

By David Buchan in Paris

European corporate treasurers yesterday broadly welcomed Brussels' plan for the transition to monetary union, but expressed concern at the prospect of having to deal with parallel sets of accounts or currencies.



De Silguy: mixed reaction

At a Paris conference of corporate treasurers, held in advance of today's Messina meeting to start preparations for next year's intergovernmental conference, Mr Yves-Thibault de Silguy, the monetary affairs commissioner, found a mixed reaction to his green paper on preparations for a single currency from many of those who will have to deal with the practical ramifications.

Mr Francois Schlumberger, president of the French corporate treasurers' association, favoured a rapid and complete switch by all banks, and therefore most companies, to Ecu accounting following the locking of currency parities.

But his German counterpart, Mr Johannes Puhl, said "the later the change-over takes place the better, because you can't have two currencies at the same time". Mr Puhl was particularly sceptical of governments' ability to pick "the right rate" at which to lock their currencies, citing Germany's mistake in giving the old East German Mark a one-to-one parity with the D-Mark.

Mr George Grennan and Mr Jimmy Doyle, of the Irish corporate treasurers' association, stressed that their country's main problem in subsuming the Irish punt into the Ecu would be the latter's rate against sterling in the UK, Ireland's biggest trading partner.

Mr Mike Northeast, representing British corporate treasurers, said his members' dilemma in preparing for a single currency was essentially whether the UK would join it. "There is a huge amount of uncertainty in the process proposed by the Commission, but at least its timetable is pragmatically short," he said.

Spanish corporate treasurers said their main fear in the transition to a single currency was that, in a country with many subsidiaries of multinational groups, most decisions about accounting switches would be made outside Spain.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297 0621, Fax (01) 4297 0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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Ministers hard pressed to keep up on defence front

By Bruce Clark

Whatever new ideas emerge from today's meeting of European Union foreign ministers at Messina, there is one area where their discussions will hardly be able to keep up with reality, and that is defence.

Advocates of closer European integration will be pressing hard for an upgrading of the Western European Union – a defence organisation that comprises 10 of the EU's 15 members – and some want a gradual merger between the EU and the WEU. But while ministers hold theoretical debates about whether it is possible or desirable for the WEU to organise itself with US help, many of their governments are concentrating on something more immediate: an imminent US role in Bosnia.

The US has presented its new-found willingness to help reconfigure the European-led peacekeeping force in Bosnia as an act of unconditional solidarity with its allies.

Yet, despite this warm rhetoric, US and West European approaches to the Balkans are far from identical. And the scope exists for huge misunderstandings to arise in the course of a joint US-European intervention in Bosnia.

The US, for example, has generally supported the use of air power in Bosnia while France now maintains that last week's air raids on the Serbs were a bad mistake.

Some EU states, especially France, have argued that uncertainty over the US role in the Balkans has driven home the need for the WEU to acquire its own military assets, including satellite intelligence and air transport. Others, led by Britain, believe the Bosnian crisis illustrates that Europe will be dependent, for the foreseeable future, on US strategic assets to deal with any real emergency.

Efforts to skirt round this argument and build up the WEU in a pragmatic, brick-by-brick way were threatened by a row that was simmering behind the scenes at this week's Nato meeting in the Netherlands.

The Nato ministers' communique uses ice-cold diplomatic formulas to describe the recent establishment by France, Spain, Italy and Portugal of a joint land force, known as Eurofor, and a naval force called Euromarfor. Instead of welcoming the initiative, the ministers could only agree to "take note of" the new units – an infantry and light artillery force based in Florence, and a naval force led by a French aircraft carrier.

Diplomats commented that this frosty language reflected US concern that over-hasty European moves towards self-reliance in defence – an idea Washington approves in principle – could undermine transatlantic relations.

A meeting of European ministers in Lisbon earlier this month decided that the new forces would be employed "as a priority" within the WEU framework, though at UK insistence a statement was added that they would equally well be used by Nato.

While the Bosnian conflict may yet reduce this question to irrelevance, the outbreak of a small transatlantic war of words over defence theology is a somewhat gloomy omen for US-European co-operation in a real war.

Ukraine outshines its noisy neighbour

By Chrystia Freeland in Moscow and Matthew Kaminski in Kiev

A granite statue of Bohdan Khmelnitsky, the Cossack who led Ukraine's rebellion against Polish domination in the 17th century, towers over one of Kiev's central squares in a physical reminder of the geopolitical dilemma which continues to bedevil Ukrainian leaders three centuries later.

After successfully throwing off Ukraine's Polish overlords, Khmelnitsky sought another foreign ally to secure the newly won independence of this geographically vulnerable eastern European state.

History has judged his choice – an alliance with Russia which quickly gave way to outright annexation – to be an unfortunate one, and today Kiev's new rulers are struggling to find a way to live with Khmelnitsky's legacy. Their emerging strategy is to balance Ukraine's uncomfortable proximity to Russia with an ever-closer relationship with the west.

Ukrainian president Leonid Kuchma's visit yesterday to EU and Nato headquarters in Brussels is the most recent example of Kiev's new approach. Ukraine signed a landmark trade deal with the EU, the first concrete reward for Kiev's pledge to close the Chernobyl nuclear plant. Ukrainians also demonstrated their enthusiasm for closer ties with the west by the enthusiastic welcome given to US President Bill Clinton during his two-day visit last month.

The west's growing affection for Kiev is a sharp change from its initially guarded, and sometimes hostile, attitude just after independence. In 1991, when the west was still struggling to find a response to the disintegration of the Soviet Union, Mr Clinton's predecessor, Mr George Bush, urged Ukrainians to remain within the USSR.

But over the past 12 months three new developments have produced a radical change in western attitudes towards Kiev. The first was Ukraine's decision last year to renounce nuclear weapons and, in a move designed to smooth Ukraine's relations with Europe, Mr Kuchma's promise earlier this year to shut down Chernobyl.

The second was the election of Mr Kuchma as president last year and his subsequent decision to launch long-delayed economic reforms which, in the opinion of Mr Mike McCurry, the US president's spokesman, have brought about "a stunning turnaround" in the Ukrainian economy.

The third and critical factor in the west's new warmth towards Ukraine has been the steady deterioration in relations with Russia.

Tens of thousands of cheering Ukrainians gathered to hear Mr Clinton's speech last month, giving him the sort of rousing reception generally reserved for rock stars and royalty. Ukrainian leaders were equally forthcoming, publicly endorsing an eastward expansion of the Nato alliance for the first time.

A similar contrast was apparent yesterday in Brussels, where Mr Kuchma signed the interim trade agreement with the EU. Just three days earlier the EU again decided to delay an identical deal with Russia, as an expression of its objections to the bloody and ongoing war in Chechnya.

Western leaders appear to have decided that backing Kiev is a way to build up a counterweight to Moscow, without directly undermining existing relations with Russia.

Reining in Russia's increasingly aggressive nationalism via Kiev is particularly attractive because Ukraine's current leaders are more alive to the need to appease the Kremlin than the most pro-Russian western policy-maker.

In contrast with the vociferously nationalist Baltic republics, Ukraine, which depends on Russia for its fuel and has a large ethnic Russian population, has been careful to couch its efforts to bolster its independence in terms which do not unduly antagonise Moscow.

One example is Mr Kuchma's delicate handling of Crimea, whose separatist movement poses the greatest threat to Ukraine's territorial integrity. Mr Kuchma tolerated extensive autonomy in Crimea until the outbreak of the Chechen war. Then, at a moment when Russia found it politically impossible to protest, Kiev unilaterally abolished Crimea's special status. Russian leaders, embroiled in a bloody war against breakaway Chechnya at home, found themselves publicly supporting Ukraine's peaceful moves to thwart Crimea's ethnic-Russian separatists.

And while Mr Kuchma's government has been a determined defender of Ukraine's national interests in its actions, it has taken great pains to offer Russia effusive rhetorical support. Thus, the Ukrainian president commemorated the 50th anniversary of the second world war by warning that "he who tries to create a quarrel between the Ukrainian and Russian people will be damned by every generation".

Mr Clinton expressed his appreciation of Ukraine's measured policy towards Russia by describing it as "just right". He approvingly cited Mr Kuchma's desire to establish a relationship with Russia similar to the links between Canada and the United States.

President Leonid Kuchma has enjoyed foreign policy successes

Kuchma's plebiscite vetoed

Ukraine's parliament yesterday vetoed President Leonid Kuchma's proposal late on Wednesday night to hold a plebiscite to push forward economic and constitutional changes being blocked by the communist-dominated parliament, writes Matthew Kaminski in Kiev.

Mr Kuchma's proposal came after parliament again failed to ratify constitutional amendments giving the president broad powers to end the obstruction of economic reforms. By a resounding 253-9, MPst decreed unconstitutional the proposed plebiscite and prohibited the government from using tax revenues to pay for it. Mr Kuchma's frustration with the legislature centres on its reluctance to adopt laws stipulated in an IMF-backed economic reform programme.

Spanish PM faces rift with Catalans

By David White in Madrid

Relations between Mr Felipe González's Socialist government and the Catalan nationalists, whose support he needs to remain in power, have entered a difficult phase in the wake of the disappointing performance of the Catalan party in last Sunday's local elections.

Mr Jordi Pujol, the leader of the centre-right Convergència i Unió (CiU) and the Catalan regional president, has reaffirmed his pledge to keep supporting the government at least until the end of this year.

But his statements in the past two days on the government's economic and regional policies, and his opposition to its plans to liberalise the abortion law, appear to be preparing the ground for an eventual parting of ways between the two parties.

The CiU is now expected to move towards a closer relationship with the opposition Popular party, which made big gains in last Sunday's elections.

Mr Pujol has come under pressure in his own party to distance himself from Mr González after a fall in Convergència's vote in Catalonia in the municipal elections from 33 per cent to 30 per cent, partly because of its support for the unpopular prime minister.

On abortion, Mr Pujol warned the government after it announced it would pursue liberalisation: "They are going to create a problem for us with this."

He has also called into question the government's "will and capacity" to move forward with tough budgetary policies and devolution which it agreed with the Catalan party, since the Socialists will be reluctant to lose further support ahead of the general elections due next year.

He warned yesterday that the debate on the 1996 budget would be "very difficult" if regional policy problems were not resolved in advance. "The problem is knowing whether the Socialist party is capable of carrying out the budget it needs in 1996," he said.

The Spanish cabinet is expected today to agree on a further transfer of powers to Catalonia. The two parties have also resumed discussions in parliament to resolve differences over outstanding legislation, including coastal building restrictions and cable television.

The government's announcement that it would press ahead with liberalisation of the abortion law, to make it effectively permissible on demand, came after pressure from the Communist-led United Left and the Socialists' left-wing.

However, the proposal faces difficulties in the senate, where the Popular party, which is opposed to the reform, is now the largest party.

Strikes test Romanian reform

Virginia Marsh reports on a government's economic balancing act

A threat by 37,000 state electricity workers to walk out today if their pay demands are not met will test the Romanian government's commitment to reform and restructuring of the economy.

The action by the workers at the state electricity company comes at a time of growing labour unrest. The three largest trade union confederations, representing more than 4m workers, yesterday resumed talks with the government but have not ruled out a general strike if a compromise over pay demands is not reached.

The showdown with the unions comes as the government, a weak minority of left-wing and nationalist parties, is under increasing pressure from the International Monetary Fund and World Bank to speed up privatisation. Five years after the end of communist rule, the state sector still accounts for 90 per cent of industrial production.

An IMF mission left Bucharest last week without agreeing to release $265m in promised loans, mainly because of delays in reforming state companies. The delays are also holding up a separate $250m restructuring loan from the World Bank.

The IMF and the bank say rapid reform of state enterprises is essential to underpin promising macro-economic reforms and the export-led recovery of the past 18 months. At the forefront of the recovery have been sectors such as the light industry, financial services, construction and agriculture, which together contributed to an increase of 3.4 per cent in gross domestic product last year, while exports rose 22.6 per cent according to official statistics.

Such companies, many of them private, were aided by a more stable macroeconomic environment and improved access to foreign exchange and credits.

Consumer price inflation fell is expected to fall below 30 per cent by the end of this year from 296 per cent in December 1993. Domestic household savings more than doubled in real terms in 1994.

Private companies argue that growth of their sector, which after a rapid rise in the post-communist years slowed last year to just 3 per cent, is dependent on restructuring and privatisation. Last year, the private sector accounted for 35 per cent of GDP.

Many private companies are therefore sympathetic to the government's aim of closing down large state-owned companies with the resultant loss of thousands of jobs. Romania's jobless rate has averaged 9-11 per cent over the last three years, less than in most other former eastern bloc countries.

The present labour unrest has been sparked off by the so-called "Ordinance No.1" – a much hated government decision issued in January which caps state sector pay at last November's levels and links future wage increases to productivity. Until then the government had preferred across-the-board pay awards linked to inflation.

The labour unrest is one of many signals that after five years of difficult and painful economic reform the patience of the people is wearing thin. For many, living standards have fallen below those during the communist era, while average real wages, now at about $100 a month, are a third less than in 1990.

Job insecurity is also increasing, with unions warning of large-scale job losses if the government presses ahead with mass privatisation and restructuring. Analysts say strikes are not only more frequent: they are becoming less manageable. "Before the government had to deal with a few large national union confederations from time to time. Now it has to deal with very many less organised disputes at the local level. This is much more difficult – it's like watching 10 rabbits all round the country simultaneously," says Mr Dorel Sandor, head of the Centre for Political Studies and Comparative Analysis, an independent think-tank in Bucharest.

Strikes normally tail off in Romania as summer approaches.

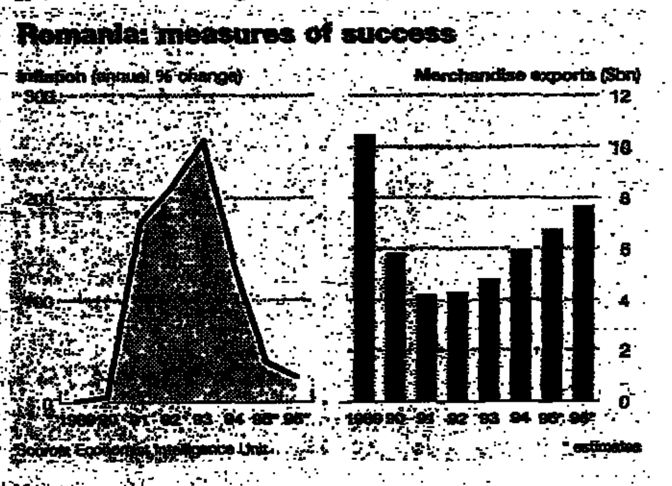
Food and energy bills fall and many people are busy tending plots of land returned under a 1991 law which gave back nationalised farmland to some 5m former owners, more than a quarter of the adult population.

But, with one eye on next year's general elections, the country's leaders are balancing the requirements of multilateral lenders and the need for reforms against how much they think the population will be able to bear next winter.

"We have to navigate carefully," says Mr Mugur Isarescu, central bank governor. "We cannot reform without the population's support. We have to be careful not to create a new social explosion which would discredit what we have achieved so far."

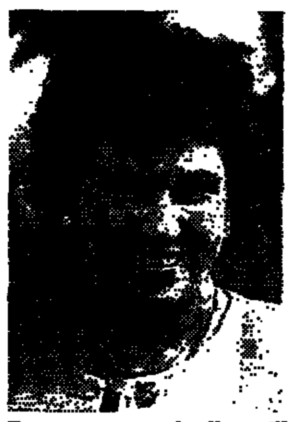
But he also says the country must deal with "the black holes" in the economy – the big loss making companies – "so as not to contaminate the healthy part of the economy".

Romania: measures of success



EUROPEAN NEWS DIGEST

Brussels starts R&D offensive



The European Commission launched an offensive yesterday to fight competition from the US and Japan in key future markets such as pollution-free cars, a new generation of aircraft and educational software. "We are very much lagging behind the United States and Japan in research and development," said Mrs Edith Cresson (left), the European research commissioner. Together with her industry and transport counterparts, Mr Martin Bangemann and Mr Neil Kinnock, Mrs Cresson announced the creation of special task forces to pool European research efforts. The different groups will organise hearings soon and produce firm proposals by the autumn.

The Commission will co-ordinate existing policies and projects between its different departments, national governments and industry, but it is up to industry to decide which ideas to pick up. The EU's common research budget will absorb Ecu12.3bn (£10bn) in the four years to 1999 – its third largest money-spending policy after agriculture and structural funds. *Reuter, Brussels.*

Sweden seeks £4bn Emu fund

Sweden's Social Democratic government said yesterday it wanted to raise SKr50bn (£4bn) from privatisation issues by the year 2000 as part of its plan to meet the convergence criteria for joining the final phase of European Monetary Union (Emu).

The government said it also planned a further SKr16bn package of spending cuts and tax increases in addition to tough measures already taken to ensure elimination of the budget deficit – currently running above 10 per cent of gross national product – in 1998. The additional package will come on top of SKr115bn in budget strengthening measures enacted since the Social Democrats took power late last year – a figure equivalent to 7.5 per cent of GDP.

The ambitious privatisation programme is more than double the amount raised by the former conservative administration. Officials said the main sources would be Nordbanken, taken over by the state during a loan loss crisis in 1992 but since returned to profit, and two companies set up to administer "bad" assets taken over by the state during the bank crisis called Securum and Retriva. *Hugh Carnegy, Stockholm.*

Russia calls general's bluff

The conflict between the Kremlin and Russia's most outspoken general took a new twist yesterday, when the Ministry of Defence accepted the general's proffered resignation.

General Alexander Lebed, an officer whose hard-hitting criticism of the Kremlin has helped to make him popular among the army's rank and file, offered to resign from his post as commander of Russia's 14th army in Moldova earlier this week to protest government plans to downgrade and eventually withdraw the army.

But yesterday Gen Pavel Grachev, the Russian defence minister, called Gen Lebed's bluff, accepting the general's resignation and downplaying the importance of the affair. Last year Gen Lebed, who harbours political ambitions, retained his post after a similar showdown. *Chrystia Freeland, Moscow.*

Romania rejects minority clause

Romania yesterday refused to include a clear commitment to minority rights in a planned treaty with Hungary, damping chances of an agreement to settle a long-standing dispute.

The Romanian foreign minister, Mr Teodor Melescanu, said his government could not agree to the wholesale adoption of Council of Europe norms on the treatment of national minorities in a so-called "basic treaty" with Hungary.

The Hungarian government has frequently said full adoption of the Council's recommendation 1201, which provides guidelines on the treatment of national minorities, was essential if a basic treaty with Romania was to be agreed. The treaty is a pre-condition for membership of the European Union and Nato. *Reuter, Budapest.*

US signs new Azores base deal

Portugal and the US yesterday agreed a five-year extension of US use of the military air base on the mid-Atlantic Azores islands under a renegotiated accord that emphasises bilateral co-operation over financial remuneration.

Mr Warren Christopher, the US secretary of state, travelled to Lisbon to sign the agreement on the Lajes base, which has been used for refuelling and maritime reconnaissance since the second world war. Lajes can provide strategic support for US operations in the Middle East, Africa and Europe, including the former Yugoslavia. *Peter Wise, Lisbon.*

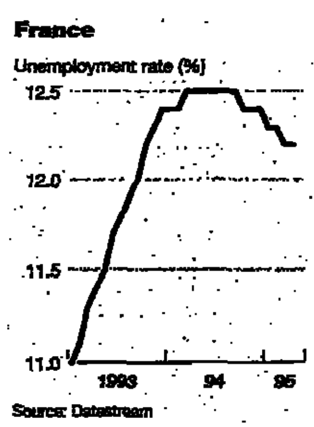
Spanish doctors' strike setback

A three-week-old hospital doctors strike in Spain took a new twist yesterday when an agreement for a return to work signed between the medical profession and the Health Ministry was declared void by the government after the doctors claimed they had negotiated big salary increases.

Officials said the doctors had misinterpreted the deal and exaggerated the pay award. The doctors accused the ministry of reneging on the deal after pressure from other government departments fearing similar claims. *Tom Burns, Madrid.*

ECONOMIC WATCH

French unemployment falls



The number of people out of work in France fell sharply in April, declining by just under 23,800 to 3.26m, according to figures released yesterday by the Labour Ministry. But despite the size of the decline – the biggest monthly fall since 1991 – the unemployment rate remained at 12.2 per cent of the workforce, the highest among the G7 group of industrialised countries. The new conservative government of Mr Alain Juppé, the prime minister, has said it will give priority to the fight against unemployment and has set a target of creating 1m jobs over the next three years. French unemployment has fallen by just under 82,000 since its May 1994 peak and there has been a marked fall – 2.1 per cent – in the number of young out of work.

However, the number of long-term unemployed, those out of work for more than a year, rose by 0.3 per cent to more than 1.2m. Job creation schemes due to be included in a mini-budget later this month are expected to include a monthly subsidy of FFr2,000 (£251) and reduced payroll taxes for companies to hire the long-term unemployed. The cut in payroll taxes is aimed at easing the structural rigidities of the French labour market. *John Ridding, Paris.*

■ Norwegian unemployment fell to 4.4 per cent in May, from 4.6 per cent in April and 4.8 per cent in May last year.

■ Danish unemployment fell to 10.0 per cent in April from 10.3 per cent in March and 12.6 per cent last April.

EU warned over Israel trade pact

By Julian Ozanne in Jerusalem

Israel's trade and industry minister yesterday attacked the European Union's "petty bureaucrats" negotiating a new trade association agreement with Israel.

He would vote against the draft agreement if it came to cabinet unchanged, he said.

In an interview, Mr Micha Harish warned that European companies would lose hundreds of millions of dollars' business in Israel as the government took measures to divert trade from Europe to other trading partners.

The warning came after Mr Manuel Marin, European commissioner responsible for the Mediterranean, said in Brussels yesterday that EU ministers would initial the agreement as it stands when they meet in Luxembourg on June 12.

Mr Marin had told Israel that the package on the table, which gives it a special relationship with the EU, with unprecedented access to EU markets and its decision-making machinery, was all it was going to get.

Mr Harish said any new agreement with the EU should be based on cutting Israel's trade gap with Europe. Israel's 1994 trade deficit with the Union's 12 members soared to $7.8bn.

This year's was expected to worsen, because of Israel losing the trade advantages it had with the three former members of the European Free Trade Association, now formally in the Union.

"Israeli exports grew last year to everywhere in the world except the EU because we are facing non-tariff barriers," Mr Harish said. "I will not support this agreement because it will not change our trade deficit."

The EU would have to agree to two fundamental changes before he, and several other cabinet colleagues, could support the agreement. First, it would have to grant Israel's demand to observer status on the committee which decides the priorities of the EU Fourth Research and Development programme.

Second, the EU would have to include Israel in the Outward Processing Traffic accords allowing European countries to use Israeli fabric and yarns in textiles finished in Eastern Europe. He hoped the EU would make changes to boost Israeli agricultural products and hold further talks on other outstanding issues such as access of Israeli companies to public procurement in telecommunications.

Israel had received firm support from Mr John Major, UK prime minister; French prime minister Alain Juppé and German Chancellor Helmut Kohl, but Brussels bureaucrats "had refused" to translate this into concrete agreements. The EU pact would be number one on the agenda when Chancellor Kohl visits Israel next week.

Mr Harish warned that EU companies, which exported $12.1bn (£7.5bn)-worth of goods and services to Israel last year, would be losers if the trade agreement was not signed. His ministry was already making efforts in both public procurement and the private sector to divert trade from Europe to North America and Asia, with which Israel has positive trade balances. How to lower customs duties to allow Japanese and Korean companies to compete in the electricity sector was also being studied.

He hoped soon to sign a trade agreement with Jordan, allowing it immediate preferential treatment and committing both states to free trade within 12 years. The agreement could become the basis of a regional free trade bloc. Work was well advanced on free trade accords with Canada, the Czech Republic, Slovakia and Hungary. Talks with Turkey would speed up once problems over textiles had been resolved.

Harish: special relationship

US group to build French fibre optic network

By Alan Cane in London and John Ridding in Paris

The European telecommunications market took a further tentative step towards liberalisation yesterday when MFS Communications, a US-based telecommunications operator, was awarded the first licence in France to construct a fibre optic network for business customers in competition with France Télécom.

The 20km loop of optical fibre, representing an investment of some $20m for the US company, will be laid in Paris where it will provide services including corporate voice and data transmission, as well as the delivery to the desktop of financial information in video form.

MFS has already built metropolitan optical fibre systems in London and Stockholm. Earlier this year it announced it had been granted a licence to contract a fibre network in Frankfurt, opening a significant inroad into the monopoly operated by Deutsche Telekom.

The French telecoms regulator, the Direction Générale des Postes et Télécommunications (DGPT), said the move marked the first time a private company had been granted permission to operate services for several companies. Under existing rules, operators other than France Télécom, the state-owned operator, are only allowed to offer voice and data services on private networks owned by individual companies.

An official said that other French and international communications groups were in contact with the DGPT concerning similar licences.

There are already more than 400 independent internal corporate networks in France, ranging from SNCF, the national railway system, to Electricité de France. Mobile telecoms operators have been allowed to develop their own transmission networks. The European Union has decided that telecoms services and infrastructure must be opened fully to competition in Europe's leading economies after January 1 1998.

Telecoms analysts said that yesterday's move represented a further increase in the competition facing France Télécom.

Britain and US restart talks on aviation deal

By Michael Skapinker, Aerospace Correspondent

The UK and US restarted talks on a new aviation deal in Washington yesterday amid increased optimism that agreement is close.

The two sides have been discussing a new deal since March without being able to reach agreement. This year's talks were the first since December 1993, when the US walked out of negotiations.

The agreement the two countries are expected to reach this week will fall short of the US desire for an "open skies" deal and is expected to focus instead on five specific issues.

● United Airlines wants to be allowed to fly from Chicago to London's Heathrow airport.

● British Airways wants a second daily flight from Heathrow to Philadelphia. BA has already begun operating the flight but wants its right to do so made permanent.

● Both sides are seeking liberalisation of code-sharing. US carriers want an increase in the number of destinations they can fly to from the UK. The UK is asking the US to approve a further tranche of code-sharing agreements between BA and USAir. Currently, BA's code-sharing agreement allows it to sell passengers trips to 65 US destinations on flights operated by USAir. It wants permission to offer flights to a further 40 destinations. Its application to do so has been with the US government for about 18 months.

● The UK wants the US to accept its unilateral offer to open its regional airports to US carriers. In return, it wants greater access to US regional airports.

● The UK wants a relaxation of the 'Fly America' policy under which US civil servants cannot fly on foreign airlines.

If agreement is reached, the two sides are expected to embark on further negotiations on greater US access to Heathrow and Gatwick airports. The UK department of transport says, however, that further access to Heathrow and Gatwick will be part of a "very limited and balanced deal".

Subsequent negotiations will also discuss the liberalisation of cargo transport between the two countries as well as a freer air charter market. The two countries are also expected to discuss the liberalisation of ticket prices.

'Bull's-eye' for bridge tenders

By Hugh Carnegy in Stockholm

The lowest tenders for the main works involved in building the first fixed link between Denmark and Sweden totalled 5 per cent more than the budget set for the combined contracts, the joint Danish-Swedish group running the project said yesterday.

Work on the main sections of the 16km tunnel-bridge, road and rail link – one of Europe's biggest infrastructure developments – is due to get under way this year, with completion of the project set for the year 2000.

Oresund Consortium, the project manager, said the lowest tenders for the dredging works, the immersed tunnel, the approach bridges and the high bridge which form the main parts of the link totalled DKr10.5bn ($1.9bn). "It is almost a bull's-eye," said Mr Sven Landelius, chief executive of the consortium. "It is a very good result."

He said the consortium would not necessarily choose the lowest bids. The budget for the whole project – including additional technical, design and organisation costs – is DKr14.4bn in 1995 prices.

Bids for the approach bridges and high bridge were opened yesterday, the last of the tenders for the main sections. The bids from six international consortiums for the approach bridges ranged from DKr3.8bn to DKr5.9bn. Bids from five consortiums for the high bridge ranged from DKr1.5bn to DKr2.1bn. Contracts are due to be signed in November.

The consortiums include companies from Denmark, Sweden, Spain, Turkey, France, the UK, the US, Germany and the Netherlands.

WORLD TRADE NEWS DIGEST

EU in push for close Japan ties

The EU is set on pursuing a policy of co-operation and not confrontation with Tokyo to achieve greater access to Japan's markets, Sir Leon Brittan, the EU's chief trade negotiator, made clear yesterday. Its drive to forge closer ties with Japan is in stark contrast to the US's attitude; Washington and Tokyo are locked in a bitter dispute over greater US access to the Japanese car market. Sir Leon said the dispute had "thrown the international spotlight on alternative ways of dealing with Japan".

The EU would be "forceful" about achieving greater openness in the Japanese market, but this was "better done by working together with Japan rather than seeking to impose a separate agenda from outside". Sir Leon said the EU was not looking for "quick fixes" but wanted to persuade Japan to open its markets in the long term.

The commissioner begins a three-day trip to Japan on Sunday accompanied by businessmen from sectors including cars, car parts, telecoms, construction, aviation, agriculture, glass, banking and textiles.

The trip, Sir Leon said, was to show that the drive to open markets required the involvement of businessmen, not just ministers and officials. Greater access to the Japanese car, car parts, and aviation markets are expected to feature in talks with the Japanese prime minister and foreign and trade ministers.

Caroline Southey, Luxembourg

Australia eyes car negotiations

Australia is asking to join bilateral talks resulting from the US-Japanese row over cars and car parts. The talks are to be held under the auspices of the World Trade Organisation in Geneva later this month. Senator Bob McMullen, Australia's trade minister, said his country had a "significant interest" in the negotiations, given that its car-related exports to Japan totalled about A$200m (US$145m) a year and that it supplied significant quantities of raw materials used by the car industry there.

Nikki Tait, Sydney

Toyota and Nissan cut prices

Toyota and Nissan yesterday said the high yen had allowed them to cut the Japanese selling price of several models built overseas. Toyota cut its price on US-made Scepter wagons and coupes by an average Y150,000 ($1,764), while Nissan cut prices of its Spanish-made Mistral recreational vehicle and British-built Primera five-door hatchback by Y100,000 each.

Reuter, Tokyo

JAL, Air France pact extended

Japan Air Lines and Air France have extended their co-operative relationship with a new agreement to share frequent flyer programmes and assist each other in airport operations. The two carriers, which began their link 35 years ago with joint flights between Paris and Tokyo, will allow customers to earn mileage credits on each other's international flights.

The two airlines will also co-operate in airport operations, with JAL moving its operations into the same terminal at Charles de Gaulle Airport as Air France. The French carrier will have the option to do the same at Narita at a later date.

Michiyo Nakamoto, Tokyo

NEWS: ASIA-PACIFIC

China 'will dominate markets' by 2005

By Tony Walker in Beijing

China by the year 2005 will be the world's second largest economy, in the top half-dozen trading economies and the largest trading partner of each of its neighbours, according to a study by China experts at the Australian National University.

It forecasts China will also dominate world markets for labour-intensive commodities, with production shifting gradually to inland areas. Its south-eastern coastal provinces will become centres of high-value production, and deeply integrated into the wider East Asian economy. Foreign trade will grow more rapidly than production, at an average of about 12 per cent for both exports and imports.

The authors are confident about continued rapid economic growth in the region. "Structural changes in China's economy are strengthening the base for sustained rapid growth. The dynamic non-state sectors are rapidly increasing their share of total activity. Savings rates are now second only to Singapore in East Asia, and still rising."

They also note that Asia's economic transformation is consolidating and China is integral to this process. "It became clear in 1994 that the frontier of East Asian-style growth had shifted to incorporate some inland provinces of China, and Vietnam: and was stretching towards the Philippines and into South Asia."

But the report also forecast a bumpy road ahead for China, where growth at an average of about 9 per cent will "continue to be uneven, marked by expansionary excesses and disruptive corrections. It is unlikely China will have developed effective market-based mechanisms for monetary controls within a decade.

"Average inflation rates will remain high, perhaps 8-10 per cent and higher at times. This will require depreciation of the renminbi after the adjustment to the current period of external strength." Amid a strong export performance, China has built up its foreign-exchange reserves to about $60bn (£37.5bn) over the past year.

The report expects growth to slow to 10 per cent this year and 8 per cent in 1996. Inflation will decline to 15 per cent in 1995 and "towards 10 per cent in 1996". It describes a "virtuous circle" for future economic growth based on the expansion of inter-provincial and inter-regional trade.

Problems of state enterprise deficits fuelling monetary growth and inflation present China with its biggest challenges, however. Other challenges include relations between the centre and the provinces and the introduction of a modern corporate system into the state sector.

Asia Pacific Profiles: Asia-Pacific Economics Group, Research School of Pacific and Asian Studies, Australian National University, Canberra, ACT 0200 Australia

Yeltsin gaffe on earthquake aid angers Japan

By William Dawkins in Tokyo

Mutual distrust between Japan and Russia intensified yesterday, with a row over Japan's offer of aid for victims of the earthquake in the far eastern Russian island of Sakhalin.

Mr Tomiichi Murayama, Japan's prime minister, described as "regrettable" a reported remark by Russia's President Boris Yeltsin that Japan might use assistance to Sakhalin to apply pressure for the return of four Russian-held islands off northern Japan.

The Russian government hastily tried to undo the damage by sending Mr Oleg Soskovets, first deputy prime minister, to tell Japan's ambassador to Russia, Mr Koji Watanabe, that it was thankful for Japan's offer of doctors and medical supplies.

More than 550 dead have so far been counted and an estimated 2,000 are still buried under the ruins of their homes. The disaster, last Sunday, was poignant for the many Japanese still grieving for the 5,500 who died in January's Kobe quake.

The echoes of Mr Yeltsin's gaffe continued to reverberate in Tokyo, where Japanese politicians and media depicted the episode as another example of Russian distrust of Japan.

"I cannot imagine the president of a country making a remark at a time when a neighbouring country is trying to offer co-operation," said Mr Kozo Igarashi, chief cabinet secretary.

The islands at stake, Etorofu, Kunashiri, Shikotan and Habomai, were occupied by Russia in the closing days of the second world war.

Because of this unresolved territorial dispute, Japan and Russia have yet to sign a peace treaty.

In the past, Japan has made increases in official aid to Russia conditional on progress on the islands, seen as a matter of national pride.

Russia is equally reluctant to swallow its national pride, intensified by the islands' strategic value. They are part of the Kurile chain, which includes rich fishing grounds and covers access to the Russian Pacific fleet's bases.

New Zealand to keep focus on repaying debt

By Terry Hall in Wellington

The New Zealand government will continue to focus on repaying debt, despite growing fiscal surpluses which are creating demands for increased social spending, Mr Bill Birch, finance minister, said in his budget speech yesterday.

He estimated that the country would show a fiscal surplus of NZ$2.6bn (£1.08bn) in the year to June 30, of which NZ$2.3bn would go to reducing debt. "This will be a major step in saving our children from a huge debt burden."

The projected surplus follows a NZ$600m surplus last year, the first for many years. Mr Birch forecast that the surplus next year would be NZ$3.3bn, rising to NZ$5.4bn in 1997 and NZ$7.8bn in 1998. Most of this would go towards reducing debt which now stands at NZ$31bn.

Mr Birch said the target was to reduce debt to 20-30 per cent of gross domestic product. Debt was reducing quickly. It had been 51 per cent of GDP in 1991, and would be 37.5 per cent at the end of this year, falling to 33.6 per cent in the next 12 months before reaching the target level in 1997.

The budget ignored growing demands from opposition parties that a "social dividend" should be awarded to the lower-paid and under-privileged who statistically have fared badly in the government's economic reforms. Mr Birch said the government was investigating making tax cuts for lower and middle-income earners. Details would be announced next year, provided the debt reduction programme was on course.

Bill Birch heads for the debating chamber yesterday with his budget speech Reuters

"By holding the current course, we can anticipate a number of reductions in tax rates over the next few years. New Zealanders pay too much tax." The budget announced increased spending in a number of areas, including education, hospitals, roads and research and development, to cost NZ$900m this financial year.

Mr Birch reaffirmed the government would stick by its controversial programme to give NZ$1bn over the next decade to Maori people for land grievances dating back to last century, committing NZ$540m for this purpose over the next five years.

Hopes rise on end to HK court row

By Simon Holberton in Hong Kong

Hopes remained alive last night for a settlement to the Sino-British dispute over the future of Hong Kong's legal system after a marathon negotiating session ended with both sides agreeing to meet next week for further talks.

The continuation of talks was seen in Hong Kong as encouraging. A successful outcome would boost business confidence, shaken by the row over the establishment of Hong Kong's court of final appeal.

The court will replace the judicial committee of Britain's Privy Council as Hong Kong's highest appellate jurisdiction after China resumes sovereignty over the colony in mid-1997. Britain has maintained that early establishment of the court is vital to preserving the rule of law in Hong Kong.

China took British negotiators by surprise this week when it offered a compromise "package deal" over the court. Part of this is believed to be a retreat by Beijing from its initial insistence that its judgments be subject to some form of extra-legal administrative oversight.

Mr Richard Hoare, a senior Hong Kong government official leading the British side, said last night the UK had given a "positive response" to the package of proposals which China had put forward. He declined to elaborate.

Doubts remain within the British camp that China is serious about reaching consensus. The Hong Kong government had planned to publish its proposed legislation for the court next week as a prelude to initiating the legislative process; some believe China's last-minute intervention is an attempt to forestall that move.

The main sticking point between the two has been over the extent of the court's jurisdiction.

China has been concerned that Hong Kong's highest court should not be able to judge matters pertaining to China's sovereignty over Hong Kong. Britain believes past accords between the two about "acts of state", such as foreign affairs and defence, should allay China's concerns.

Governor Chris Patten told the Legislative Council, Hong Kong's law-making body, yesterday that he would prefer to bring legislation to the council which had the blessing of both countries, but that time was running out.

Legislation to enable creation of the court would be put to LegCo before the end of the present session which finishes at the end of July, he added.

ASIA-PACIFIC NEWS DIGEST

Landmine ban urged on UK

Britain will come under pressure today at an international conference on the impact of landmines to impose a blanket ban on the manufacture, export and use of anti-personnel mines. The conference, attended by delegates from 41 countries, is in Phnom Penh, capital of Cambodia, one of the countries worst affected by landmines. Mr Rae McGrath, the director of the Mines Advisory Group, a British demining charity, said that by refusing to take a lead in imposing a ban on landmines, the UK was tacitly condoning their use.

Britain last July bowed to international pressure by announcing an indefinite moratorium on the export of mines – recently extended to other "non-detectable" devices. In February, the UK also ratified the 1981 United Nations convention restricting the use of such weapons. Britain has not exported landmines for several years, but has held out against a total ban. The Foreign Office has instructed the British embassy to brief participants on Britain's position, that landmines constitute a portable, useful and legitimate means of defence. *Jonathan Miller, Phnom Penh*

OECD backs Australian stance

In a broadly encouraging report on Australia, the Organisation for Economic Co-operation and Development concluded yesterday that the country had reached "the point in the economic cycle where the authorities' resolve to achieve sustainable growth and lock in low inflation will be tested". While economic growth appeared to be slowing from 1994 rates, it was "likely to need to slow further if a build-up of inflationary pressure is to be avoided".

Over the longer term, faster non-inflationary growth could be achieved, provided the economy's "productive potential" was fostered. The report noted Australia's efforts to reform its labour market structures and introduce a national "competition policy". This is aimed at increasing efficiencies among utilities, in the transport sector, and the professions. But healthcare was another area where "micro-reform promises large returns". The report suggests that attempts to contain expenditures through budgetary caps for public hospitals have undermined efficiency. *Nikki Tait, Sydney*

Tamil rebels killed in offensive

More than 60 Tamil rebels were killed in a Sri Lankan army offensive against a big guerrilla jungle base yesterday, according to Brigadier Sarath Munasinghe, military spokesman. He said the army lost two officers, including a battalion commander, and five soldiers when the Tigers pounced on them during the jungle operation at Thiriyaya, about 15 miles north of the eastern port of Trincomalee. Ten soldiers were missing. It was the biggest army operation since the rebels broke a truce and resumed fighting in April, taking to at least 77 the death toll in clashes between the rebels and security forces since Wednesday night. Last week, the Tigers shot or hacked to death 42 civilians at the fishing village of Kallarawa, about 10 miles from Thiriyaya. *Reuter, Colombo*

■ The Bank of Japan increased its foreign reserves by $604m (£377.5m) last month to a record $154.27bn, in an attempt to restrain the relentless rise of the yen. The increase, while smaller than in previous months, marks the 19th month in a row in which the central bank has accumulated extra reserves, by selling yen for dollars. *William Dawkins, Tokyo*

■ South Korea's customs-cleared trade deficit widened to $1.09bn in May from $602m a year earlier and $993m in April, trade ministry provisional figures showed. *Reuter, Seoul*

US factory orders in heavy fall

Orders to US factories fell by 1.9 per cent in April, the biggest drop for nine months and the first time in nearly two years that such orders have fallen for three consecutive months, AP reports from Washington.

Elaborating on this latest sign of softness in the US economy, the commerce department said yesterday that the decline in orders had been led by a 4 per cent drop in interest-sensitive durable goods – the biggest decrease in more than three years.

Analysts had expected orders to fall in April, after having slipped 0.4 per cent in March and 0.3 per cent in February. The last decline over three months in a row was during March-May 1993.

Earlier yesterday, the US government had reported that personal income and spending both rose a moderate 0.3 per cent in April.

That followed the announcement on Wednesday that US gross domestic product, the government's broadest gauge of economic strength had risen 2.7 per cent in the first quarter of this year – down sharply from the 5.1 per cent growth recorded in the last three months of 1994.

Giving yet another sign of slowdown, the labour department said new claims for state unemployment insurance had risen by 9,000 to a seasonally adjusted 389,000 last week, the highest in four months. New claims for jobless benefits went up by 13,000 from the level of the previous week.

The closely watched survey by the National Association of Purchasing Management showed that US manufacturing had stopped growing in May, after 20 months of expansion.

The NAPM index fell to 46.1 in May from 52 in April. It was the first time in 21 months that the index had retreated below a 50 per cent reading, indicating that manufacturing is contracting.

Analysts said the accumulation of data points to much slower US growth, although they said the odds were still against a recession.

"The economy is taking a bigger hit than was expected. The soft landing is giving evidence of being a bumpy landing as of now," said Mr Robert Dederick, economist of Northern Trust in Chicago.

The April decline in factory orders was the largest since a 2 per cent fall last July.

Ex-American Honda chiefs took $15m bribes

Two former executives of American Honda were found guilty yesterday of accepting over $15m in bribes from Honda dealers in a nationwide scheme, Reuter reports from Concord, New Hampshire.

A federal jury in Concord took seven days to reach a verdict to convict the former executives.

Mr Dennis Josleyn, 48, Honda's former West Coast sales manager, was found guilty of mail fraud, racketeering and conspiracy to commit mail fraud.

He faces up to 30 years in prison.

Mr John Billmyer, 65, a former senior vice-president, was convicted of conspiracy.

He faces a jail term of up to five years.

Under the scheme, said to have spanned at least 30 states and to have continued throughout the 1980s, the pair were said to have accepted bribes in the form of cash, expensive jewellery, luxury cars, swimming pools and other gifts from car dealers.

In return, Mr Josleyn and Mr Billmyer awarded lucrative Honda franchises to dealers, as well as allocations of certain sought-after Honda and Acura models.

Prosecutors argued successfully that the two were part of a conspiracy to defraud American Honda, a subsidiary of Japan's Honda Motor Company.

No Japanese executives were involved in the scheme.

Prosecutors said Honda was not only defrauded, but also faced potential lawsuits from Honda dealers who did not receive the preferential treatment given by Mr Josleyn and Mr Billmyer.

Defence lawyers argued that Honda's top management turned a blind eye to the bribes and that the bribe-taking was implicit, though unofficial, company policy and therefore did not constitute a crime.

"These verdicts close the book on a painful and difficult period in our history," American Honda said.

"The jury has found that the individuals convicted in this scheme betrayed the trust of their fellow-employees, deceived our company and abused our reputation."

The scheme was one of the biggest scandals in American car industry history.

A total of 20 former Honda executives and employees pleaded guilty to participating in the scheme.

One of the executives who pleaded guilty, Mr James Cardiges, had been an important witness in the prosecution's case.

NY abandons plans for rail link with airport

By Richard Tomkins in New York

Long-delayed plans to build an express rail link between New York City and its main airport, John F. Kennedy International, have been cancelled for lack of funds, it was announced yesterday.

The Port Authority of New York and New Jersey, the public sector body that had planned to build the line, said it was abandoning the multi-billion dollar project in favour of a less ambitious improvement of existing links.

The line would have been the biggest public sector transport project in New York since the 1930s. Cancellation means that JFK will remain one of the world's largest airports without a direct rail link to the nearest city centre, or plans to build one.

At present, airport users without their own transport between Manhattan and JFK have to choose between a taxi ride that can cost up to $50 one-way or a bus journey that costs $13. Both are prone to delays from traffic congestion and bad weather.

It is also possible to travel to the airport by a combination of subway and shuttle bus at a cost of just $1.25, but both are slow and infrequent and are used only by a small proportion of low-budget travellers.

The port authority, which runs New York's airports, had planned to build a 22-mile rapid transit railway linking JFK and La Guardia airports to East 59th Street in Manhattan, mainly following the lines of the Long Island Rail Road.

The original plan was to fund it through a $3 levy that has been imposed on passengers at JFK since October 1992. But yesterday, Mr George Marlin, the port authority's recently appointed executive director, said the maximum sum that could be raised through the levy was $1bn, while estimates for the project had ranged from $3bn to $7bn.

"I have to deal with the hand I am dealt, and I am looking at an airport access programme based on $1bn," Mr Marlin said. Fresh studies would consider the idea of building the line in segments, possibly including a link between Manhattan and La Guardia.

Benefits for felled dictator

Deposed Panamanian dictator Manuel Antonio Noriega will receive retroactive retirement benefits of about $100,000 and a pension of $1,500 a month for his 27 years of military service, AP reports from Panama City.

Panamanian social security officials announced the decision last night. Noriega, deposed during a US invasion of Panama in 1989, is serving 40 years in a US federal prison in Miami for drug trafficking.

He joined the now-defunct Panamanian National Guard in 1962 at a salary of $80 a month. Government records show he was making $3,000 a month as head of the country's armed forces when he was deposed.

Move to ease capital's financial crisis

Three named to Washington board

President Bill Clinton has appointed a former governor of the US Federal Reserve and two other people to a five-member control board to help near-bankrupt Washington out of its financial mess, AP reports from Washington.

Mr Andrew Brimmer, a member of the US central bank's board in the late 1960s and early 1970s, will chair the District of Columbia Financial Responsibility and Management Assistance Authority. The district is the federal enclave that incorporates Washington.

Others appointed to the board yesterday were Joyce Ladner, a sociologist and former interim president of Washington's Howard University, and Constance Newman, undersecretary of the Smithsonian Institution and a former federal personnel director. All three live in the district.

The White House said Mr Clinton planned to name the remaining two board members soon. The five would serve unpaid three-year terms.

The president signed legislation establishing the control board after auditors predicted the district government would fall into insolvency by summer.

The city, which has a $3.25bn budget, is expected to run a deficit up to $722m million this year.

Minister says bank chief's resignation leaves policy on course

'No change' on Brazil economy

By Angus Foster in São Paulo

Mr Pedro Malan, Brazil's finance minister, yesterday pledged there would be no change in national economic policy, despite the resignation on Wednesday of the country's influential president of the central bank.

The minister said: "I have a very clear message. There will be no change whatsoever in the characteristics of the anti-inflation plan."

The resignation of Mr Pérsio Arida, a leading architect of the anti-inflation Real currency, has surprised many observers and led to worries that tough policies which had produced high interest rates and an overvalued currency might be changed.

But Mr Malan said that interest rates would only come down when the bank president had clear signals that consumer spending was slowing and that Brazil's trade balance had recovered.

Mr Arida insisted he was leaving for personal reasons, rather than because of policy disagreements. He is thought to have been unhappy in the post since he was blamed for a mishandled devaluation of the Real in March.

However, analysts said personal differences with other government officials and family problems had contributed to his decision to leave office.

Mr Roberto Setúbal, president of Banco Itaú, said the resignation would not significantly affect the Real plan.

He said that Mr Gustavo Loyola, Mr Arida's replacement, was an experienced central banker who had good links with Mr Malan.

Mr Loyola has been president of the the Brazilian central bank bank before, in 1992-93, and is seen as a technician who lacks Mr Arida's creative flair. According to one banker, the new president will thus be better suited to the day-to-day management of the bank.

Brazil's financial markets reacted cautiously to the resignation and the São Paulo stock market was down by less than 1 per cent at lunchtime yesterday. The Real currency was also stable, despite some early selling.

Mr Arida was committed to clean up Brazil's loss-making state banks, especially Banespa in São Paulo state, and his resignation may strengthen the hand of those politicians who are determined to keep control of the bank and to slow down privatisation.

Mr Malan denied that the government would soften its stance towards Banespa, and he said a solution to its problems was coming closer. "Things are moving there," he said.

Mr Loyola resigned from MCM Consultants to take up the post. According to a circular from the consultancy yesterday, lower interest rates will depend on clearer signs of an economic slowdown.

"As for the exchange rate policy, we continue to discard major changes over the next few months," it said.

Worries amid strong growth

Sally Bowen assesses new fears over the Peruvian economy

Like many other Latin American countries, Peru has been at pains in recent months to emphasise the differences between its own apparently booming economy and that of Mexico. Even so, some uncomfortable similarities have arisen.

Concerns surfaced during recent negotiations with an International Monetary Fund mission, on a periodic trip to Lima to monitor progress and agree monetary and fiscal targets, in accordance with the three-year "extended fund facility" signed in 1993.

Peru has notched up the most impressive growth statistics in Latin America for the past two years: GDP expanded 6.4 per cent in 1993 and 12.9 per cent in 1994. Now, the IMF temperature detects signs of overheating in the economy.

Most worrying is the outlook for Peru's balance of payments. The deficit on current account hit a record high of $2.77bn (£1.74bn) last year, exacerbated by a trade gap which topped $1.1bn. The trend continues: expansion of imports for the first two months of 1995 (up 51 per cent) vastly outstripped growth in export revenue (up 36 per cent).

Consumer credit is also expanding rapidly. Two new Chilean-owned banks are promoting personal loans while the Peruvian middle classes, long starved of opportunities to acquire cars and domestic appliances, wallow in unfamiliar easy indebtedness.

Mr Germán Suárez, president of Peru's central bank for the past three years, believes the IMF fears are "bordering on psychosis" and are an "over-reaction in our case, which doesn't mean we shouldn't be careful. Mexico served to remind us that the fundamentals must be in order."

He argues that investment grew considerably more rapidly than consumption last year and that two-thirds of current imports are raw materials and capital goods, essential for a badly decapitalised local industry tooling up.

Mr Suárez puts the current account deficit at "around 5 per cent" of a GDP of $50bn. The Economic Commission for Latin America (ECLAC), however, is not alone in calculating Peruvian output at $39bn. (Dollar equivalents are distorted by hyper-inflation in the late-1980s.) Using the latter figure, the deficit works out at 7.1 per cent, the highest in Latin America and perilously close to that of pre-disaster Mexico.

It can be argued that Peru's 1994 current account deficit is of no great concern, since it was more than compensated for by a $3.6bn surplus on the capital account. Some $2.1bn of this, however, was due to privatisation revenue, largely the windfall from Telefónica's generous bid for the telecommunications duo CPT/Entel.

The foreign reserves position, positive by $5.6bn, looks healthy, but mainly for the same reason: unable to spend privatisation cash on domestic poverty alleviation without causing inflation, Peru has the bulk on deposit abroad. Of the remainder, the deposits local commercial banks are required to make with the central bank account for a large portion. The central bank's own reserves stand at only $1.2bn.

Many economists fear a deterioration in Peru's balance of payments position.

First: even though several large state-owned companies are due for sell-off this year, the pace of privatisation will slow. Second: debt service payments will increase if and when a Brady plan is negotiated. Peruvian economists predict additional payouts of $200m-$500m a year. Third: Peru's export earnings look unlikely to increase substantially in the next year or two.

President Alberto Fujimori's government pays lip service to the need to export but the beleaguered sector sees no prospect of relief.

The currency, the sol, continues over-valued, infrastructure is still inadequate, and port and transport costs remain high despite some improvements. Raw or semi-processed materials (based on mining, oil and fishing) earn the lion's share of export revenue.

Such revenue, therefore, is very vulnerable to international price fluctuations or climatic conditions (March GDP growth plunged to 6 per cent, from 11.8 per cent in January and February, because of a fishing ban.)

The absence of tax concessions, especially on Peru's high energy tax, mean exports of more processed, value-added goods are not profitable.

The other potential Achilles heel of the government's economic programme is poverty and unemployment. Most recent official statistics put 11.5m Peruvians, just under half the population, below the poverty line, unable to cover basic food, clothing, housing and transport requirements. Of these, 4.7m, or 20 per cent of all Peruvians, cannot meet basic nutritional needs.

About 11 per cent are classified as fully unemployed (up from 8.3 per cent in 1990) and 77 per cent "underemployed" – most of them in the informal economy and paying no taxes.

Peru has reasons to believe it will escape the Mexico experience. The exchange rate is free and market-driven (although the central bank has been intervening to support the currency in recent weeks). Privatisations and the illegal drugs trade ensure a continuing large net inflow of dollars. The internal rate of savings, though still inadequate, is up to about 16 per cent of GDP, and long-term investment commitments greatly outstrip speculative capital coming into the small but active Lima stock exchange.

Negotiations with the IMF ended in compromise. The government agreed to conditions meant to keep GDP growth in the range of 6 to 7 per cent this year, and inflation in the range of 9 to 11 per cent. But economists will be keeping an especially watchful eye on the evolution of Peru's indicators.

PERU: Domestic economy and external trade

	1992	1993	1994e	1995f
	(Per cent change)			
Real GDP	-2.4	6.5	12.9	8.0
Consumer prices, end-period	56.7	39.5	15.4	12.1
	($bn)			
Trade balance	-0.6	-0.6	-1.1	-1.4
Exports	3.5	3.5	4.5	5.2
Imports	-4.1	-4.0	-5.6	-6.6

e=estimate f=forecast Source: Institute of International Finance

GENERAL PROCUREMENT NOTICE

PROCUREMENT OF PRODUCTS AND SERVICES UNDER JAPANESE GRANT AID FOR ECONOMIC STRUCTURAL ADJUSTMENT OF THE KINGDOM OF CAMBODIA

The Government of The Kingdom of Cambodia has received a Grant Aid of 2,500 million Japanese Yen from the Government of Japan to purchase products and services incidental to such products for public bodies and private sector companies of the Kingdom of Cambodia.

Categories of products are:
- ☐ Petroleum products
- ☐ Iron and Steel products
- ☐ Paper and Paperboard
- ☐ Equipment for distributing electricity

Eligible source countries are all countries and areas except the Kingdom of Cambodia.

Firms or companies who are interested in supplying product(s) as mentioned above should submit to JAPAN INTERNATIONAL COOPERATION SYSTEM (JICS) the following information as soon as possible : Name and address of firms or companies, name(s) of person(s) in charge, telephone and facsimile number. This information is acceptable BY FACSIMILE ONLY. By return, JICS will send a FORM OF APPLICATION by facsimile, which is to be filled out and sent back with the required documents (e.g. balance sheet and the statement of profit and loss in past 3 years, etc.) by registered mail, international courier service, etc. Only firms or companies who submit the FORM OF APPLICATION prior to pre-qualification (P/Q) will be registered. P/Q for each procurement will be held one by one in accordance with the contents of submitted FORM OF APPLICATION and will commence after 3 weeks from this publication as soon as necessary preparation is arranged. Criteria of P/Q shall be determined by each procurement and shall depend on procurement conditions such as the items nature, scale, delivery period, etc.

It should be noted, however, that JICS is not committed to contact ALL firms or companies expressing interest after receiving the above mentioned form.

Invitations to tenders to qualified firms or companies will be issued at a later date.

Procurement Office for Non-Project Grant Aid.
Grant Aid Management Dept.,
JAPAN INTERNATIONAL COOPERATION SYSTEM (JICS)
P.O. Box No. 301
6th floor, Shinjuku Mitsui Bldg.,
1-1, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 163-04, JAPAN
TEL : 03(5322) 2441~2444
FAX: 03(3340)5505

NEWS: INTERNATIONAL

Leaders' rivalry could damage opposition's election hopes

Likud party braced for split

By Julian Ozanne in Jerusalem

Israel's rightwing opposition Likud party was yesterday braced for a split which could damage its chances of winning next year's election battle against the Labour party of Prime Minister Yitzhak Rabin.

The division in the party, which could result in a breakaway faction forming a new political party this month, comes as opinion polls show Likud would trounce Labour in next November's general elections.

Division and political infighting among the right wing will be greeted with joy in the embattled Labour party and will increase Mr Rabin's ability to push ahead with difficult Middle East peace policies, which have been the focus of rightwing opposition.

The Likud split largely results from a personal, rather than ideological, power struggle between Mr Benjamin Netanyahu, Likud leader, and Mr David Levy, a former foreign minister and influential representative of Sephardic Jews who emigrated to Israel from North Africa.

Mr Levy, who lost the leadership battle in 1993 in an acrimonious campaign in which both men traded insults, believes Likud has been hijacked by Mr Netanyahu and his supporters and is dominated by Askenazi (European) Jews.

Mr Levy says 80 per cent of Likud supporters are Sephardic Jews and he is demanding reserve places for his supporters in forthcoming primaries to decide a list of parliamentary candidates.

Mr Levy has formally threatened to quit the party if Mr Netanyahu does not surrender to his demands at next Monday's central committee meeting.

He has called for a meeting of his supporters on June 18, where it is widely expected he will announce the formation of a new political party.

However, Mr Zalman Shoval, a Netanyahu support and aspiring candidate, said: "Mr Levy is trying to keep ethnic politics alive in an era when it no longer exists. No leader of a democratic party can give into these demands. Mr Levy is without doubt a leader who enjoys popular support but if he wants to continue in national politics outside the Likud it will be his end."

Likud insiders say Mr Netanyahu has secretly promised to make Mr Levy second in command in the party and future deputy prime minister but that Mr Levy has refused the offer without a secure internal power base. He has not ruled out the possibility of a last-minute compromise but the majority of party activists believe a split is now inevitable.

Netanyahu: Likud leader

Japan's call to resume minke whaling refused

By James Harding

Japan's request to resume small-scale commercial whaling has been refused, despite signs of a softening in the international community's attitude to the Japanese demand. The International Whaling Commission's annual meeting in Dublin concludes today, after a week in which one official said "a great many things have been discussed and few resolved".

One of the few resolutions was to maintain the moratorium on commercial whaling, voting down Japan's request to catch 50 minke whales in its coastal waters. Japan, bound by the 1982 IWC decision to impose zero quotas on all members, has argued its four coastal whaling communities have suffered economic and social distress because of the moratorium.

Delegates voted 10 for and 14 against Japan's request for a special allocation of minke whales. Few observers expected Japan's request to be successful. One IWC official noted: "The expressions of support for Japan seem to be creeping up. As Japan continues to comply with every demand the IWC sets, more people are asking what more can the Japanese be reasonably asked to do?"

Following the decision by the IWC to ban commercial whaling from a whale sanctuary declared around the Antarctic, the request for the coastal minke whale catch is Japan's last hope of any kind of internationally sanctioned whaling operation.

Norway, which has opted out of the IWC moratorium on whale hunting since 1986, was condemned by the IWC for continuing to hunt minke whales in the Atlantic. The IWC this week passed a resolution 21-6 calling on Norway "to halt all whaling activities". Since the whaling season began last month, Norway has killed 82 of the 232 whales it has allocated itself for the 1995 catch.

Hassan walks a fine line with Islamists

The benefits of economic reform have not stopped many Moroccans turning to Islam for solace, writes Roula Khalaf

In Casablanca, Morocco's emerging financial capital, the squalid, overcrowded neighbourhoods are conspicuously concealed by concrete walls. The slums stand side by side with the modern Morocco of mirrored facades and tall, handsome buildings.

This image of a country moving at two speeds is feeding a growing Islamist movement, now taking firm hold in Morocco's universities. Students are increasingly turning to the message of people like Mr Fathallah Arsalan, a member of the executive council of Al Adl wal Ihsan (Justice and Charity), Morocco's largest Islamist movement.

"What we have is oppression, injustice, corruption and poverty – it is revolting," says Mr Arsalan.

It is perhaps an irony that after more than 10 years of International Monetary Fund medicine and many medals of honour for good economic behaviour, Morocco should face the challenge of a burgeoning Islamist presence.

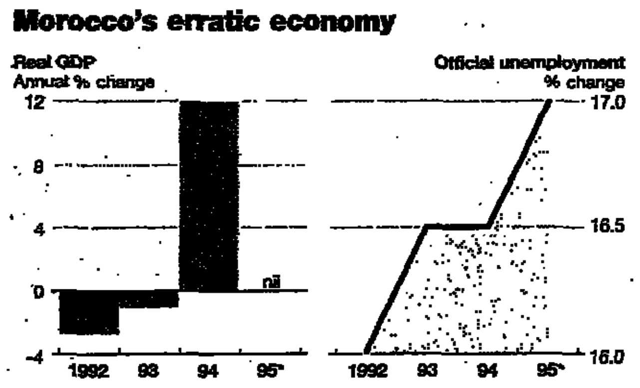
But most Moroccans have yet to reap the fruits of economic reform. With a population growing at more than 2 per cent a year, half aged less than 20, and unemployment running at an estimated 25 per cent (17 per cent officially), Morocco is racing against time to transform macro-economic achievements into benefits for a population plagued by severe income disparities.

The country, according to Mr Mohamed Guessous, an Islamist expert and member of the left-wing Union Socialiste des Forces Populaires (USFP), has about 30 different Islamist groups, with only four large enough to make themselves heard. Mr Guessous says the Islamists are pushing aside leftist groups in universities, especially in science departments, and have become the dominant force on Casablanca's campus.

Their activities, tolerated by the government, focus on spreading an authoritarian version of Islamic adherence in society on the one hand and helping alleviate economic burdens on the other. "Islamism in Morocco is above all else a formidable network of support, of social solidarity and political-cultural allegiances," says Mr Guessous.

Morocco's Islamist movement is homegrown and has little to do with the civil strife gripping Algeria. Nor is Morocco likely to go Algeria's bloody way – as long as King Hassan II maintains his policy of tolerance and has the will to accelerate economic growth and open up the political system.

Morocco's erratic economy



Source: Foreign and Colonial & Upline Securities *Estimates

While most of the country's Islamist leaders were once followers of the Saudi-funded and radical Chabiba Islamiya (Islamic youth), implicated in violent acts in the 1980s, they have gradually developed into non-violent groups. They say they will remain this way as long as the government does not resort to repression. Like other Islamist groups, their ultimate goal is the establishment of an Islamic state, though the means to achieve this vary between movements.

So far the king has walked a fine line in his dealing with Islamists, allowing them to gather, set up social events and publish newspapers, but denying them legal status as associations.

To temper Al Adl's appeal, the government has for the past five years kept its charismatic leader, Mr Abdelsalam Yassine, under house arrest, without charge.

Officials insist the Islamist movements' support base remains marginal. They underline the king's inherent legitimacy as a descendant of the Prophet and the pluralistic tradition of Moroccan political society as a buffer. While this may be the case, it is also true that many Moroccans, faced with a disorienting modernisation on one level and economic and social backwardness on another, and a lack of real representation, are turning to Islam for spiritual solace as well as a political vehicle for voicing grievances.

Morocco's Islamists seem to have a rational, well thought out strategy. Taking advantage of the king's tolerance, they are quietly building their support base.

Soon, however, they are likely to forcefully, yet peacefully, set out their demands for an open political field and a more generous social agenda. "The question is how will the king respond," says a diplomat. "Will the king be able to fill the vacuum?"

The king has been the driving force behind Morocco's economic restructuring, which allowed the economy to grow by an average of more than 4 per cent a year since 1983.

But finding jobs for the 200,000 young people who enter the workforce every year – when new jobs in the most prosperous years do not top 140,000 – requires faster growth. This is no easy task given the erratic behaviour of the Moroccan economy, which remains at the mercy of rainfall.

A catastrophic drought this year is expected to lead to flat or negative growth, according to Foreign and Colonial Emerging Markets. Inflation, meanwhile, is running at 6.7 per cent, way ahead of the government target of 5 per cent.

Morocco's broad economic successes also mask a failure on the social front – its illiteracy rate stands at a monumental 50 per cent. And although the king, for the last two years, has been toying with the idea of alternance, or allowing a greater role in government for the secular opposition, he has yet to settle on terms which would fit his twin ambitions of modernising the country while safeguarding his throne.

Islamist leaders say the king, with one eye on the home front and the other on the west, will heed their calls and avoid a confrontation.

"The government knows it has problems which are essentially economic and the answer is in attracting foreign investment and tourists, which means the government needs stability," says an Islamist lawyer.

"They cannot look for confrontation and cross the red line, just like we don't want to cross the red line."

INTERNATIONAL NEWS DIGEST

Surprise Syrian visit by Mubarak

Egypt's President Hosni Mubarak began talks yesterday with Syria's President Hafez al-Assad during a surprise visit by the Egyptian leader to discuss Middle East peace negotiations. A Syrian presidential spokesman said a high-ranking delegation accompanied the president.

The Syrian and Egyptian leaders have been co-operating closely on the Middle East peace process and regularly consult on developments. Mr Mubarak's visit precedes a tour of the region by Mr Warren Christopher, US secretary of state, during which he will discuss how to push forward Syrian-Israeli talks. *Reuter, Damascus*

S Africa labour threat grows

Union support in South Africa for a two-week campaign of mass action beginning next Tuesday appears to be growing. The campaign, which aims to put pressure on employers during talks on new labour relations legislation, is scheduled to culminate with a half-day national stoppage. The Congress of South African Trades Unions (Cosatu), the biggest labour grouping, yesterday won the support of the smaller Federation of SA Labour Unions, and expects similar endorsement soon from the National Council of Trades Unions. *Roger Matthews, Johannesburg*

Algeria leads in oil discoveries

More oil was found in Algeria last year than in any other country, according to Petroconsultants, a Geneva-based group which monitors developments in the international oil and natural gas industries. The company's annual survey of hydrocarbon discoveries showed that 1.13bn barrels of oil and condensate, a naturally occurring petrol, were discovered in Algeria in 1994. That was nearly twice the volume found in Norway, which came second in the rankings. Algeria came second behind Malaysia in the Petroconsultants ranking of natural gas discoveries. *Robert Corzine, London.*

£100m complex hope for Bristol

By Roland Adburgham in Bristol

A £100m ($157m) property scheme incorporating a world trade centre, linked to an international network of 170 existing centres, is planned for Bristol, south-west England.

Wimpey Construction and Lucarne International, a property development group, said yesterday that the project could eventually create up to 2,000 jobs, in addition to construction workers employed over a phased six-year programme.

They intend the world trade centre to be the hub of a complex which would include about 30,000 sq ft of exhibition space, conference rooms, office suites, a hotel and serviced apartments.

Although the site has yet to be chosen and planning consent will be required, if the project is successful it will provide Bristol with a considerable boost. Mr Alan Gunter, a Wimpey director, said the city was "lacking an international identity".

The World Trade Center Association, based in New York, granted a Bristol licence in April to Wimpey and Lucarne, a company set up for the purpose of the project. The trade centres have a network database which links 400,000 subscriber businesses, and facilities include meeting rooms, secretarial services and 24-hour video conferencing.

The only existing centre in the UK opened last year in Cardiff, Wales, at the international arena developed by Brent Walker.

Mr Michael Langridge, managing director of Lucarne, said he was confident funding would be in place from a German bank and a Singapore property company.

"We felt Bristol was in need of a trading platform," he said. "Bristol does not have a recognised conference centre of national significance and has far more potential for business tourism. Our aim is to provide Bristol with a significant business centre of world ranking."

House builders and mortgage lenders are angered by 'direct attack on homeowners'

PM sparks row over housing slump

By Andrew Taylor and Kevin Brown

The government yesterday came under fire from house builders and mortgage lenders after Mr John Major, the prime minister, appeared to blame homeowners for over-borrowing in the late 1980s and causing the housing recession.

Mr Major's remarks coincided with reports of further house price falls last month. Nationwide building society said average prices fell 0.7 per cent last month, compared with April providing "further evidence of the weakness of the housing market".

Halifax, Britain's biggest mortgage lender is expected to report today that the average price of a UK home has fallen by about 1½ per cent since April last year.

Speaking in Lincoln, Mr Major said that the UK was heading for classic economic recovery based on rising employment and increased competitiveness. He blamed the lack of a feelgood factor in the economy on the housing market which had moved from boom to bust in a short number of years.

"An awful lot of people had committed themselves to mortgages [in the late 1980s] that were a good deal bigger than ideally they should have had.

"Suddenly inflation began to take off, interest rates began to rise, mortgage rates began to rise and house prices stopped rising and fell. The negative equity trap that has done so much to damage confidence began to hit us."

Mr Roger Humber, director of the Housebuilders Federation said: "The prime minister should not be blaming home owners, he should apologising to them.

"He has totally ignored the role of his own government's policies in exacerbating the length and depth of the housing market recession by the inappropriate timing of mortgage interest tax relief reductions, plans to reduce mortgage interest support to the unemployed and by vacillating policies on interest rates since last autumn."

The Council of Mortgage Lenders, involved recently in sharp exchanges with Mr Peter Lilley, social security secretary, over income support plans, said the government should take responsibility for its actions.

Mr Peter Williams the council's head of external affairs said: "The government was central to both the boom in the housing market and its subsequent recession.

"It is in the government's own hands to improve this e situation."

Shelter the charity for the homeless said Mr Major's comments were "ill-informed" and "thoroughly disingenuous".

Mr Gordon Brown, the opposition chancellor, said the prime minister's comments amounted to "a direct attack" on home owners.

The Council of Mortgage Lenders said the housing market could "remain flat for another five years" unless government improved prospects for home owners.

The council wants ministers to scrap plans to restrict income support for unemployed mortgage holders which it says would cause a sharp rise in repossessions.

Mr Ian Shepherdson, a Midland Bank economist, described the latest price falls as "the calm before the storm". He warned that prices were likely to fall further over the summer before some stability returned to the housing market during the autumn.

Cornish fishermen accuse Spaniards of cutting through nets

Representatives of Cornish fishermen are to protest to the government after a trawler skipper claimed that a Spanish vessel had deliberately cut through his nets, raising fears of renewed tension as the tuna season gets under way.

The European Commission confirmed yesterday that a Spanish trawler had damaged the nets of a British trawler in what appeared to have been an accident 100 miles off Land's End.

Mr Mike Townsend, chief executive of the Cornish Fish Producers Association, said he would raise the incident with the Ministry of Agriculture, Fisheries and Food. He said: "I see this as a very serious incident which happened in UK territorial waters."

Mr Marco Zatterin, the commission fisheries spokesman, said: "According to the information we have, it was an accident. There was no intention of harming the British vessel."

He said the Spanish vessel was fishing in an authorised area and warned captains to be careful now that the tuna season had started.

Mr Mike Faulkner, captain of The Golden Bells II, said the Spanish trawler ignored repeated warnings to back off, then dragged through a 1,000-yard section of fine mesh netting worth £1,000.

He said the 54ft Cornish fishing boat had steered alongside the larger Spanish vessel, trying to force it clear of its eight miles of gill netting, which were anchored to the seabed.

"I was speaking to the Spanish skipper on the radio and the crew were shouting across to him. But he was ignoring all of us," said Mr Faulkner.

He added that confrontation on the high seas appeared again to be on the rise. Another Newlyn boat, the Holly Jane, had its nets cut by two Spanish vessels while fishing 150 miles south-west of Land's End last week.

British fishermen have often accused Spanish crews of breaking international fishing laws.

In April Mr William Waldegrave, the agriculture minister, warned Spanish fishermen the navy would act to protect fish stocks in British waters.

Big players join in the latest waste paperchase

By James Harding

Westminster City Council's rubbish is in hot demand. In recent months, waste management companies from the UK, US and even China have approached the local authority about handling the refuse, most of which is paper.

"The way waste paper demand has taken off in the last six months, it has become a very aggressive market where everyone is looking for where they can get hold of used paper," says Mr Mark Banks, the council's recycling officer.

With waste paper now commanding record prices and new recycling plants coming on-stream this month set to expand demand, a trade that was once "run by people in baggy sweaters and sandals", according to one observer, is set for a new era of competition and consolidation.

According to PPI, the Brussels-based monitor of European paper prices, increased demand has more than doubled UK waste paper prices. One tonne of once-read newspapers, for example, was worth £100 ($157) in April, up from £70 in March.

Mr Geoffrey Jones, national secretary of the British Waste Paper Association, says the surge in waste paper prices has been caused by the same factors pushing up European newsprint prices, which prompted the launch six weeks ago of a European Commission investigation.

Global economic recovery, growing demand for paper worldwide, particularly in the dynamic Asian economies, and the increasing numbers of recycling mills being built to circumvent high pulp prices has resulted "in an imbalance in supply and demand, that has driven up the price for waste paper".

Mr Jones argues that the waste paper industry is cyclical, noting that prices only recovered to 1990 levels last December after "four barren years".

Elsewhere in the industry there is more confidence in the long-term future of the waste paper market.

This month another recycling plant, Aylesford Newsprint, owned by SCA-Minorco-Mondi, the Swedish-South African joint venture, is set to come on stream with a capacity to recycle as much as 380,000 tonnes of waste paper per year by 1997. Aylesford forecasts that by then UK recycling mills will require 1.2m tonnes of waste paper each year, up from 750,000 tonnes last year, while total available raw material will grow more slowly to 3m tonnes in 1997 from 2.8m tonnes last year.

The belief that demand will swell and put continued pressure on supply is being reflected in the growing interest of the large integrated waste management companies in the small independent waste paper collectors.

Earlier this year, UK Waste, a joint venture between Wessex Water and Waste Management International of the US, bought Clarfield Recycling, the Bristol-based waste paper collector, for an estimated £2m, a signal to the industry of the increased value of waste paper collection networks to international waste managers.

Mr Nick Francis, Clarfield's managing director, predicts the UK Waste purchase is part of a longer trend: "The industry is in turmoil, with waste paper in such demand that mills are looking to confirm their core tonnages, and that will be by making acquisitions".

UK NEWS DIGEST

Penal 'tagging' trials delayed for second time

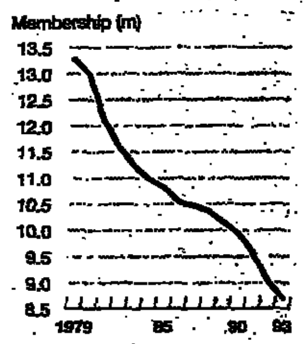
Technical difficulties in adapting US equipment for electronically "tagging" convicted criminals have forced the Home Office to postpone trials of the system, it was announced yesterday. The system, fiercely opposed by liberal penal reform groups, was due to be tried out in Reading and Manchester at the beginning of this month. Trials have now been postponed for at least a month.

Mr Michael Howard, the home secretary, wanted to offer "tagging" as a sentencing option for judges and magistrates. It could be used to enforce curfews or to check that offenders did not leave their homes at specific times. This is the second postponement of the system.

John Authers

Decline in worker organisation

Trade unions



Source: Department of Employment

UK trade union membership has dropped to its lowest number since 1946 with only 8.7m of the labour force unionised by the end of 1993. This represents one in three of all employees and a 35 per cent cut in the proportion organised since the peak level of 13.2m in 1979. The latest official figures for 1994 from the labour force survey reveal that 88 per cent of those employed in electricity generation and supply are unionised, 81 per cent in rail transport and 67 per cent in postal services. Unionists are now in a minority in printing and publishing and chemicals and chemical products (both 32 per cent). However, 48 per cent of employees still worked in places where unions were recognised for collective bargaining.

Robert Taylor

Duty-free fight continues

Eurotunnel, the Channel tunnel operator, is complaining to the European Commission after losing a High Court battle to stop duty-free sales on cross-Channel ferries and aircraft.

The court ruled in February that Eurotunnel had delayed too long in seeking legal redress after the court's decision last July allowing it to seek a judicial review of duty-free sales.

Eurotunnel says allowing cross-Channel ferries to continue such sales is the equivalent of a £100m-a-year subsidy.

Now the company is challenging the Commission's decision to extend until 1999 duty-free sales on journeys between member states.

Neil Buckley

Trainee accountants bullied: One in four trainee accountants are the victims of bullying at work, according to a survey published by Pass, the accountancy students' magazine. Of the 600 questioned by Pass and Harrison Willis, recruitment consultants, 11 per cent had suffered verbal intimidation in public and private.

Other forms of bullying included persistent criticism, suffered by 9 per cent and shouting endured by 8 per cent. Only 2 per cent reported sexual harassment.

Jim Kelly

Prison contractors named

Winning security and construction consortia to invest a total £100m in design, construction, management and finance, reports **Andrew Adonis**

The government yesterday announced the award of two new private prison contracts in a decisive advance of its prison privatisation policy which could result in up to 10 per cent of the prison population being in private hands by the next general election.

The two contracts take the number of private prisons to six, managed by four separate companies. Yesterday's contracts went to two consortia, the first comprising Group Four, the security company, and Tarmac, the construction group, which headed off a bid from a consortium of Wackenhut, the US private prison operator, Trafalgar House, the construction and hotels group, and Serco, the British facilities management company. Wackenhut and Serco already run a prison in Doncaster.

The second went to a consortium headed by Securicor, another security group, and including the construction company Costain. Other members include W.S. Atkins, British consulting engineers, a Scandinavian construction group and British architects Seifert.

Group Four won the contract for a new prison at Bridgend in Wales, and Securicor for a prison at Fazakerley, north-west England.

The contracts, requiring total capital investment of around £100m ($157m), involve a far greater degree of private sector commitment than the four existing private prisons. They cover the entire process of design, construction, management and finance (DCMF). The management contracts run for 25 years, whereas the existing private contracts are for five years only.

The consortia will be paid set fees contingent upon them making a predetermined number of places available and satisfying a range of performance targets – covering issues such as escapes and the regime for prisoners – laid down in highly detailed contracts.

The prison service – an agency set up two years ago to take over the management of prisons from the Home Office – is expected to announce up to four additional DCMF prison contracts over the next year. Separately, it is likely to expose one or two existing state-run prisons to open competition with the private sector for their future contracts.

It is also pressing ahead with a third key aspect of the privatisation programme, the contracting out of the court escort service, which ferries prisoners between jails and the courts. Four contracts have been awarded, and a further four are expected over the next year, which will put the entire escort service in the private sector.

Mr Derek Lewis, director-general of the prison service, objects to the word "privatisation" as a description of the current policy, noting that the prison regime, and decisions about individual prisoners, will continue to be decided by the prison service acting on ministerial policy guidelines.

The retention by the government of detailed regulatory powers has been common to all privatisations since British Telecommunications, the former state utility.

Nothing signifies the government's determination to forge a new path more graphically than the appointment of Mr Lewis as first head of the prison service as an agency. Founder of the UK Gold satellite and cable channel, Mr Lewis was recruited by the government two years ago to shake up prison management and pioneer privatisation.

He has had a rough passage, with high-profile prison disturbances at Whitemoor and Parkurst during his term. Yet privatisation is advancing steadily and Mr Lewis's term has been extended until next year.

Mr Lewis claims that existing private prisons cost between 15 and 25 per cent less per prison place than comparable state-run prisons. The saving per prisoner is less, because private prisons are not bearing the burden of the serious overcrowding in the state prison sector, necessitated by the rise in the prison population to its highest level ever – 51,700 – this April.

Private operators claim their savings come from more rational and flexible staff working practices than those prevalent in the state sector. UKDS, a consortium comprising Correction Corporation of America, a private prison operator, and construction companies John Mowlem and Robert McAlpine, operates Blakenhurst prison near Birmingham. It claims that it requires only four-fifths of the staffing for a similar state prison, and that it can attract top quality custody officers at salaries about 7 per cent lower than those in the state sector.

Group Four, which manages the Wolds prison on Humberside and Buckley Hall, Greater Manchester, claims a similar saving in staff numbers.

Mr Lewis is confident that DCMF will lead to still larger savings because of the transfer of risk to the private sector. The contractors will assume responsibility for building the prisons to prearranged costs and timescale; for gaining necessary detailed planning consents; and for satisfying required standards of prison regime. If they default, penalty payments are payable.

Mr Lewis claims the detailed contractual requirements have led to significant improvements for prisoners, notably in the number of hours they are allowed out of their cells.

There is some nervousness in the prison service at lauding such improvements, following a call from Mr Michael Howard, the home secretary, for an "austere" prison regime. Instead, officials point to the greater opportunities for work and education, which will be given a high priority in the new prisons.

The future of prison privatisation is in the balance. Mr Jack Straw, the home secretary for the opposition Labour party, has pledged to halt the policy if Labour is elected. Mr Lewis and the private prison companies believe they have two years to demonstrate that the cost of doing so is too high – for taxpayers and prisoners alike.

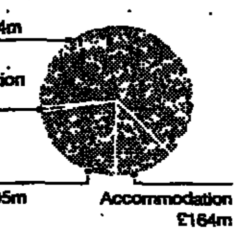
Confident custodian of a changing service

Derek Lewis
director-general, Prison Service

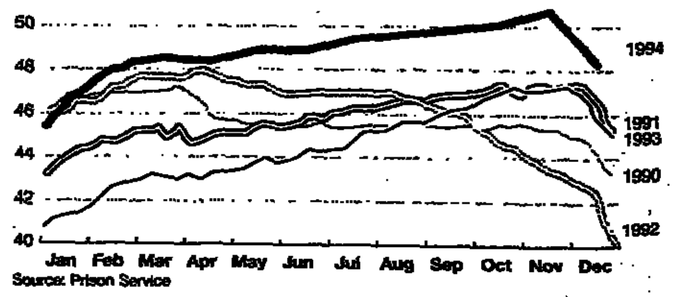
Comparing the cost (per year)

	Per place	Per prisoner
State local prisons and remand centres	£21,373	£22,969
Private prisons	£15,647	£20,080

The cost of prisons 1993-94



Total population in custody (000s)



Source: Prison Service

THE PROPERTY MARKET

A longer shopping centre list

Simon London looks at big regional developments taking shape despite government planning curbs

It is ironic that the announcement that UK retail sales had shown a seasonally adjusted fall during April was drowned out by the sound of new shopping developments taking shape.

The notion that the government has put an effective brake on out-of-town shopping development was looking questionable before the latest flurry of announcements. Now it appears that planning restrictions designed to protect town centres in the UK may have spurred developers into action.

A rough calculation of big retail schemes in the pipeline – those over about 500,000 sq ft – suggests that at least 7m sq ft of new shopping space is on the way. Many of these schemes have moved from being vague possibilities to strong probabilities.

For example, John Lewis Partnership and House of Fraser, the retailers, have committed themselves to space at Bluewater Park, the planned 1.6m sq ft regional shopping centre in Kent. Capturing two of the UK's leading retail groups should help Lend Lease, the Australian company which owns the site, in funding negotiations with financial institutions.

Following last week's House of Lords decision to uphold its planning permission, Peel Holdings, the property company, is clear to build a 1m sq ft centre at Dumplington, Greater Manchester. Peel is now refining the scheme before starting funding negotiations with banks, which it hopes will lease finance the project.

In addition to these two massive regional shopping centres, several large sub-regional schemes are creeping closer to fruition:

- John Lewis has decided to take space in the planned 600,000 sq ft shopping centre in Buchanan Street, central Glasgow. Slough Estates and AMP Asset Management, the joint developers, are pressing ahead with the project.
- Despite Strathclyde Regional Council's refusal to grant a revised planning permission, the developers of the proposed 500,000 sq ft centre at Braehead, outside Glasgow, have vowed to build in line with their existing consent.
- Plans for 600,000 sq ft of shopping at Shepherd's Bush, west London, moved closer following a decision by Mr John Gummer, the environment secretary, not to block the scheme. The White City Consortium led by Mr Godfrey Bradman, former chairman of Rosehaugh, the collapsed property developer, is now trying to consolidate its ownership of the site.
- Southampton City Council is supporting plans for 750,000 sq ft of shopping in the city centre proposed by Imry, the property developer owned by Barclays Bank.
- Dudley Metropolitan Borough is supporting proposals for a 600,000 sq ft extension to the existing Merry Hill centre in the west Midlands put forward by Chelsfield, the company which owns the scheme.

Two other big out-of-town schemes of more than half a million square feet – the White Rose Centre near Leeds and Cribbs Causeway, Bristol – are also quietly taking shape.

Whether the developers and investors will earn an acceptable rate of return on capital sunk into large centres remains an open question. No other part of the UK retail trade is brimming with confidence. The recent profits warning from W.H. Smith, which prompted a 15 per cent fall in its shares, underlines that many retailers are suffering.

The picture is not universally weak. Some sectors, such as clothing, appear to be doing well, although warm weather during the early spring may have played a part.

The big retailers on which shopping centres depend are generally doing better than small ones which are more likely to trade out of high streets.

Central Statistical Office figures show that the cash value of sales by large retailers – those with turnover exceeding £3m ($4.8m) in 1990 – was 4 per cent higher in the first quarter of the year than in the same period of 1994. Small retailers suffered a 2 per cent fall.

Even so, large retailers are experiencing the lowest annual rate of sales growth since 1981.

While these figures are generally disheartening for the retail property sector, investors in very big shopping centres are doubtless taking a long-term view.

Besides, even if retail sales overall do not live up to expectations over the next few years, big shopping centres continue to take trade from high streets. So long as retailers are clamouring for space in regional and sub-regional schemes, rents will rise and investors will make an acceptable return on capital.

Whether by luck or judgment, the regional distribution of big shopping schemes has worked out well. The only obviously competitive situations are between Bluewater Park and Lakeside Thurrock, an existing regional centre just north of the River Thames in Essex, and between Buchanan Street and Braehead.

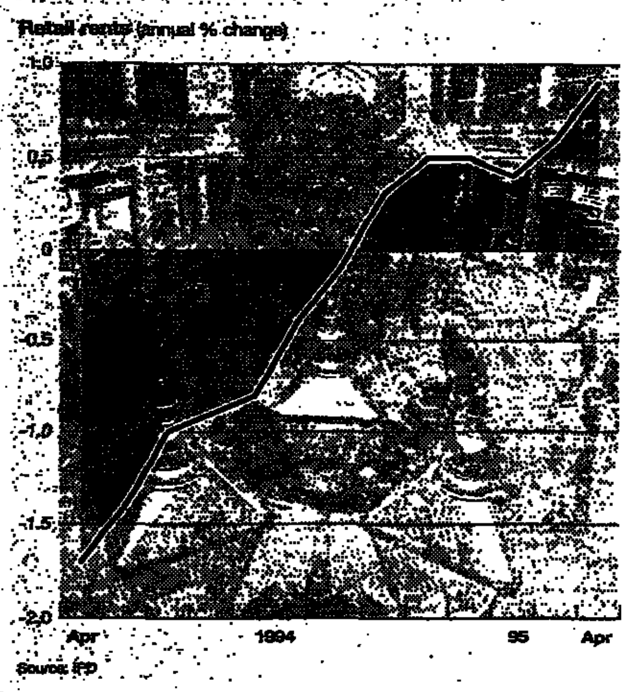
Even so, weight of investment going into regional shopping schemes suggests an uncommon degree of consensus that the future is bright. The bidding battle for the MetroCentre in Gateshead, one of the most successful of the existing regional shopping centres, will provide an interesting litmus test of optimism.

At least five bidders are known to have submitted sealed bids by last Friday's deadline. Of the known contenders, Prudential Portfolio Managers probably has the lowest cost of capital thanks to its status as an institutional investor rather than a public company. All other things being equal, this should allow it to make a higher bid than the competition.

However, shopping centres are more like complex businesses than conventional property investments. Forecasts of the income which can be squeezed out of the MetroCentre are likely to vary enormously between the bidders, depending on the management strategy they have in mind.

Still, a final price of over £300m looks certain, which means that the winner is likely to accept an initial yield of less than 6 per cent. Such a low yield only makes sense if the buyer can be sure of achieving strong rental growth in spite of the current fragility of consumer confidence.

Reading the retail runes



Source: IPD

COMMERCIAL PROPERTY

COMMERCIAL PROPERTY

MANAGEMENT

Working hours are changing, writes **Victoria Griffith**

The long good Friday

For the young, summer has a special meaning: freedom from classes and examinations, and the liberty to spend lazy afternoons whiling away the hours. When students graduate to the workplace, however, summer more often means spending sunny days cooped up in an office and roasting in traffic jams in a humid city.

A growing number of US companies are attempting to recapture a little youthful free spirit by creating special work schedules for the warm-weather months.

Pfizer, Bristol Myers Squibb, American Express, Viacom and Colgate-Palmolive are some of the companies that have adopted the practice. Most programmes allow workers to leave at Friday lunch time. American Express is more flexible, giving employees the choice of departing early on Fridays or arriving late on Mondays.

Some companies, such as advertising groups Ogilvy & Mather and Grey Advertising, look on early release as a gift to hard-working employees. Others require that the time be made up earlier in the week. Pfizer, for instance, asks workers to come in a half hour earlier, or leave a half hour later between Monday and Thursday. Bristol-Myers cuts the usual lunch hour to 45 minutes.

"We had such an overwhelmingly positive response to this from our employees, and we haven't suffered any decline in productivity," says Ronald Martin, director of global employee relations for Colgate-Palmolive. "It allows people to beat the rush hour on Fridays and get away for the weekend."

Some corporations offer summer hours between the end of May and the beginning of September, while others limit the long weekends to July and August.

The cosmetics group Revlon found the new work hours were so popular that it decided to turn the summer weekends into a year-round practice. "This did wonders for morale, so we decided to make it for the whole year," says Ronald Dunbar, head of human resources for the group. "We have a lot of single-parent employees and other workers who have a hard time balancing work and family, and the long weekends are really appreciated."

Revlon's hours are now 8.30am to 5.15pm Monday to Thursday, with release at 12.30pm on Fridays. Many companies see early release as part of the trend that led them to institute casual dress on Fridays. The new dress code began as a summer-only privilege at most corporations, and was then extended to the rest of the year.

Corporations say the policy can give them a hiring edge over competitors. This means the practice can become widespread in a specific industry, as employers vie for staff.

Long weekends are common in the New York City cosmetics and advertising sectors, for instance. "Employees can appreciate more flexible hours more than a pay raise," says Harry Levinson, a management consultant. "It can give them a hiring edge."

Whatever the corporate reasons for instituting the policy, employees taking advantage of the long weekends say summer has acquired a special meaning again. "It's wonderful, because I can take off for the beach with my husband, or just spend a quiet afternoon in the city," said Sara Roselli, a human resources associate at Colgate-Palmolive. "It's what summer should be."

Finding the 'ideal' company

Tim Dickson on a survey of graduates' preferences

North American multinationals appear to be more popular with European business students than "local" firms, according to a survey of graduate opinion to be published next month.

Asked which company they would "ideally" like to work for, 7,000 Europe-based respondents to a questionnaire ranked Hewlett-Packard, McKinsey & Co, Boston Consulting Group, IBM and Microsoft in the top five positions. BMW was the leading European company in sixth place, with Nestlé, ABB and Unilever also featured in the top 10.

On the whole European multinationals scored well in one or two European countries – notably where they had a strong presence – but they were seldom above average in others.

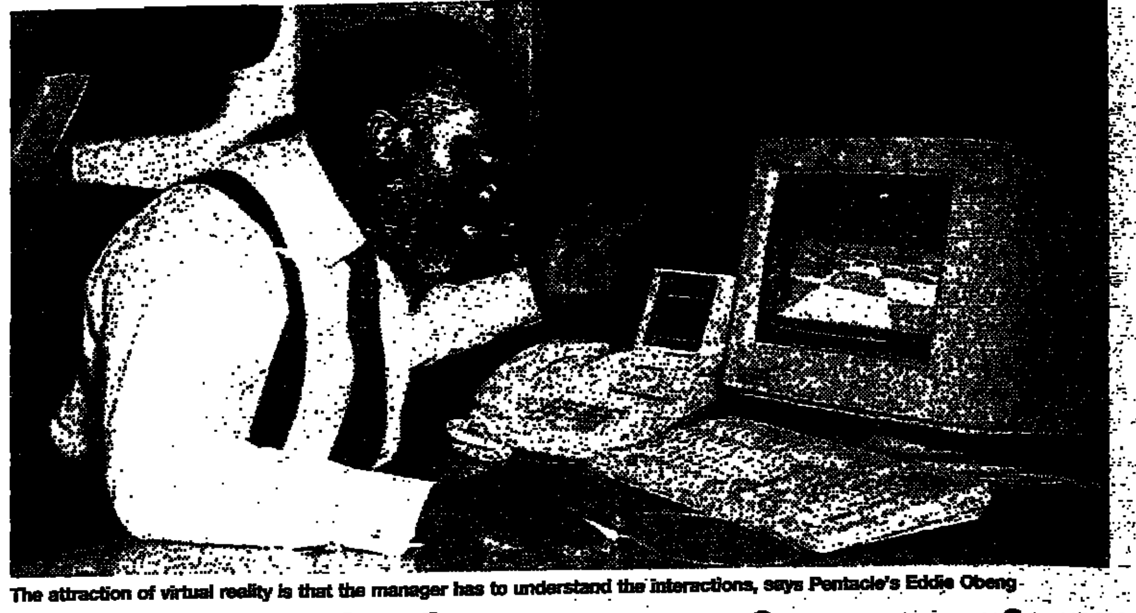
The European Graduate Survey is the brainchild of Universum, a small Swedish publishing company. Altogether, final year graduate and undergraduate students at 36 business schools and technical institutions in 13 western Europe countries were asked for their views. The results were unweighted.

Some of the findings were predictable but they may nevertheless interest the growing number of companies looking beyond their national borders for internationally minded managers. The majority of the most favoured employers were in computers, telecommunications, management consulting, automobiles and consumer goods. Heavy engineering, pharmaceutical and insurance businesses were not represented in the top slots.

The survey identifies four distinct graduate "profiles". These are the high-achiever (profit oriented, particularly interested in working for a multinational and likely to have a career plan), the traditionalist (for whom interesting tasks and working with inspiring people are significant, and who prefers not to leave his or her home country for extended periods), the entrepreneur (who sees a career as a means to build a sound financial base), and the "post-materialist". Post-materialists focus on personal development and growth, spending time with friends, and developing their creative talents. They like working in a multinational, being open to foreign cultures and business practices.

Among issues seen as important by today's business graduates, the survey lists a corporate environment perceived as "truly multi-cultural" – and not overly dominated by one nationality; a progressive and dynamic style where managers are specific in goal setting and delegation, and are receptive to subordinates; and the possibility to make a positive contribution to society. Competitive salary and the chance to reach managerial levels were not highly rated features of an "attractive" employer.

More information from Universum: Tel Sweden 46 8 6794801



The attraction of virtual reality is that the manager has to understand the interactions, says Pentacle's Eddie Obeng

Local learning in a global market

Stuart Crainer says the latest technology can give managers access to information tailored to their needs

The 1990s have seen big companies struggling with the twin demons of achieving global presence and being locally responsive. The management development world has faced a parallel paradox – how to deliver general management education, as well as courses and programmes tailored to the specific requirements of companies and individuals.

The situation is further complicated by the fact that managers, under pressure from constant change, have little time to develop the new skills needed to "reinvent" themselves.

"Workloads are substantial and if you are sent away on a course, you do think of the work piling up on your desk," says Sheila Dawson, head of business services at the international banking arm of the Bank of Ireland. "We are going through radical business re-design and process improvement, so training must put things in context and help our managers to deliver core objectives," she adds.

Changed times demand new approaches to development, says Roger Shaw of the consultancy Strategic Training. "People now have to manage multiple strategies. They are dealing with great complexity. Bringing in a consultant who stays for a brief period, offers insight on a small number of issues to a small number of people and then disappears is not useful."

According to Eddie Obeng of Pentacle The Virtual Business School, the paradoxes can be bridged using the latest technology. "If managers can't be sitting in the same classroom, the traditional response has been to use some form of distance learning," he says. "While classroom-based and distance learning are clearly valuable, they cannot avoid being formulaic or relying on a 'one best way' approach.

"There is a growing need for local learning – learning which is continuously adapted and fitted around the immediate needs of managers. If access to learning is immediate it becomes a far more valuable managerial currency."

Pentacle, which was set up in the south of England last autumn, is using technology to give managers constant access to learning. It is, for example, using technology for mentoring. "The constant interaction allowed by networking on the information superhighway turns mentoring into a far more dynamic, customer-focused and practical exercise," says Obeng, a former Shell manager and ex-faculty member of Ashridge Management College. Senior executives without typing skills are spared – they can use voice mail and relatively inexpensive desktop video phones.

Enthusiasm for such approaches appears to be growing. "Demand for computer-based simulations and needs analysis software for management development has rocketed in the last two years," says Peter Ross, managing director of training and multimedia company, Peak Interactive. "Multimedia has finally become a practical reality for many businesses," Ross says.

Sceptics might suggest that while the world is full of talk of virtual reality, virtuality is far from reality. The virtual organisation conjures up the image of Californian management thinkers anxiously scanning the dictionary for new buzzwords.

"In the past people had to be brought together because they couldn't do things for themselves," says Laurence Lyons, co-author of *Creating Tomorrow's Organisation* and co-founder of Henley Management College's Future Work Forum.

"Now technology is giving more power to individuals. The implications for management development are phenomenal. Managers will have to organise, manage, motivate and develop themselves in a world where organisations and individuals become atomised. But they will not do so in isolation. They need to be linked to the organisation and to interact with the other people in it."

Obeng believes the "V" word is misunderstood. "There is nothing grandiose about the concept. Managers are adept at using networks and, increasingly, at working in teams. It should never be forgotten that technology enables managers to work more effectively and to learn new skills cost-effectively. The virtual concept is a label, what matters is making it work."

One means of making virtuality work is the idea of "virtual teams", championed by Mercury, the telecommunications company. The term is used to describe groups of people who are accountable for the achievement of transient or short-term objectives. The idea is that virtual teams enable a flexible and continuously evolving fit between skills, resources and immediate needs.

One of the attractions of such a pragmatic approach is that executives do not have to travel the world, flitting from one jet-lagged meeting to another. Instead, technology provides constant links, through e-mail or computer notice-boards.

Pentacle is using virtual teams in the development of a virtual reality simulation involving programmers linked between its base in the UK and Seattle. "The attraction of virtual reality is, if it is well designed, the manager has to understand the interactions before making progress. The simulations we have developed examine real business issues," says Obeng.

Nuclear Electric's David Heap, one of the first managers to experience the simulation, believes it could prove valuable. "Examining business processes requires a tool which shows how they flow through the business. Seeing all the various processes and how they interact on the screen brings it to life and makes it easier to take a broader perspective," he says. "The only limitation is coming to terms with the simulation and how it works. Once you can understand this, you can make it happen."

The simulation doesn't take up huge amounts of room on a PC and can be sent down phone lines quickly and cheaply. It is highly traditional in one respect, however: as the manager progresses through the program, success is measured by the physical size of the pound sign displayed.

ARTS

Sponsorship/**Antony Thorncroft**

London festival flush with aid

Arts festivals are the wonder of our age. It sometimes seems that there is scarcely a city, or a village, in the land, no in the world, that does not set out its cultural stall for a time each year.

But funding arts festivals is an increasingly parlous business. In the first flush of enthusiasm sponsors rally round; for a year or two they keep the faith, then they fall away and the festival organisers must spend more time trying to raise money than preparing a programme.

In the last two years, with corporate sponsors wanting a tangible return from their support and reluctant to commit in the long term, festivals have found it harder to maintain revenue. The Arts Council is not supportive, particularly of new festivals, and local authorities can offer little more than moral aid.

This year those regular stand-bys, charitable trusts and foundations, have been less generous: lower interest rates have reduced their income and they are holding on to their resources in readiness to fund National Lottery projects. Fortunately festivals can adapt: they rarely own premises, or employ large staffs, and they can trim their plans to fit the income.

While many festivals struggle, some thrive. The first Islington International Festival opened yesterday. It was started by Sonia Serafin, who has raised an extraordinary £500,000 to fund the five-day event, which takes an idiosyncratic view of the arts.

Ms Serafin finds her inspiration in the opening ceremonies of recent Olympic Games and 70 per cent of the money raised has paid for visits by continental performance arts troupes that gave the Barcelona Games such a riotous send-off. So circus performers, and creators of surrealist sculptures, and pyrotechnic groups are prominent. On top of Islington Town Hall Dutch artist Erik Hobjin creates fire sculptures, and atop Upper Street's commercial premises Airvag is installing inflatable stars, cones and moons.

About 100 companies have sponsored the fun and the key was getting core funders with seed corn cash. Islington council gave £150,000 to cover two years and the Business Design Centre offered a crucial £50,000. This was enough to get the revenue drive off the ground and local shops, businesses and the nearby City rallied round.

A leading supporter has been Arsenal Football Club, which contributed £12,500. As a first-time arts sponsor this attracted matching funding under the government's Pairing Scheme. In fact the festival has been so successful in raising contributions from first-time sponsors that it quickly reached the maximum £50,000 available in subsidy for a single event under the scheme.

Arsenal was fazed when the festival chose the cockerel as its mascot – the symbol of its arch rivals, Tottenham Hotspur. The festival discreetly switched to an African golden crested crane for its emblem. But the Arsenal connection has impressed local traders, many of whom have given between £100 and £5,000. Typical has been the NatWest Property Group, which contributed the £2,000 raised from a "wear what you like at work day": its staff turned up in jeans and T-shirts but paid for their fun, while managers paid for wearing suits.

An Islington festival gains from having rich and trendy locals with contacts in the City. Around a quarter of the City firms Ms Serafin propositioned made a contribution, including Schroder, Morgan Grenfell, Slaughter and May, and Gartmore. Even the City Corporation, now a keen arts supporter, gave a neighbourly sum.

So this weekend Islington is swathed in tents, in street theatre, in urban fairground, in continental mayhem. If any part of the country is ready for Europe it is this part of North London. The main arts venues in the area, Sadler's Wells, the Almeida, the Crafts Council, have stayed aloof - at least for this first year. Their support will be needed in 1996 when, like most festivals, Ms Serafin struggles to maintain momentum.

She can take inspiration from the largest arts festival in the UK, if not the world, Edinburgh, which this year will get just over £1m, or 20 per cent of its income, from sponsorship. There is an extra 20 per cent coming from the corporate sector, with important new sponsors NEC, Den Danske Bank and Air UK helping to make up the fall-off from trusts and foundations.

More typical of festivals is Spitalfields, which begins next week. Its biggest source of unearned income, trusts and foundations, is down sharply this year, from £95,000 to £65,000 (although the Baring Foundation delivered its promise). But director Judith Serota has raised £14,000 more overall – from corporate donations, from the Arts Council, even from the local authority, Tower Hamlets, and from commercial sponsors, up from £16,500 to £21,000.

Two new first-time supporters, St George, which is rebuilding the recently fire-damaged Spitalfields market, and Gibbs, Hartley & Cooper both attracted top-ups from the Pairing Scheme. The latter, surprisingly, is a Lloyd's broker.

Opera/**Richard Fairman**

'Cunning Little Vixen' jumps across Channel

The introductory page to the programmes at the Théâtre du Châtelet has taken on an extra significance in the last few weeks. Writing a year ago in his capacity as mayor of Paris, Jacques Chirac affirmed his support for the opera house which the city pays for out of its own funds and wished it a successful season.

Since then the French electorate has stepped in to call the tune. With Chirac elevated to the presidency, the old rivalry between the Châtelet and the state-run Bastille – Francois Mitterrand's opera house of the people and formerly a bastion of socialist idealism – looks less clear-cut. In future, the two establishments will be fighting more to score artistic points than political ones – a battlefield where the Châtelet at present has a strong advantage.

As Chirac promised, the theatre's 1994-95 season has been an adventurous one: a new *Ring* cycle, the ambitious production of Purcell's *King Arthur* which came to London, Britten's *Peter Grimes* and – the last event – Janáček's *The Cunning Little Vixen*, which is more of an adventure in France than it would be in Britain.

The operas of Janáček are still comparative rarities in France. In an interview, Charles Mackerras suggested that there has been no musician who has championed Janáček's music there as he has in Britain, which may be true.

Certainly, the Châtelet did well to invite him to conduct this production. There is nobody with more experience than Mackerras in this music and he had given the Orchestre de Paris a thorough grounding in the best Janáček style – lucid and transparent, every detail tingling with joyous energy.

It would seem that Mackerras was the presiding genius of the enterprise. It was he who insisted that the opera should be sung in the original Czech, believing that translations of Janáček into French do not work; and one imagines that he also had an input in choosing the producer, reviving a partnership with Nicholas Hytner that worked so well for Handel's *Xerxes* at English National Opera.

Although Bob Crowley's designs flooded the stage with brilliant green, Hytner avoided turning the argument of *The Cunning Little Vixen* into a comparably green tract. Humans and animals alike were shown to have their cruel side, while at the end the gamekeeper stood among the forest creatures as an equal.

If only the animals and birds had been less professionally cute, instead of dancers in fancy dress, heavily choreographed, like the chorus line of a West End musical.

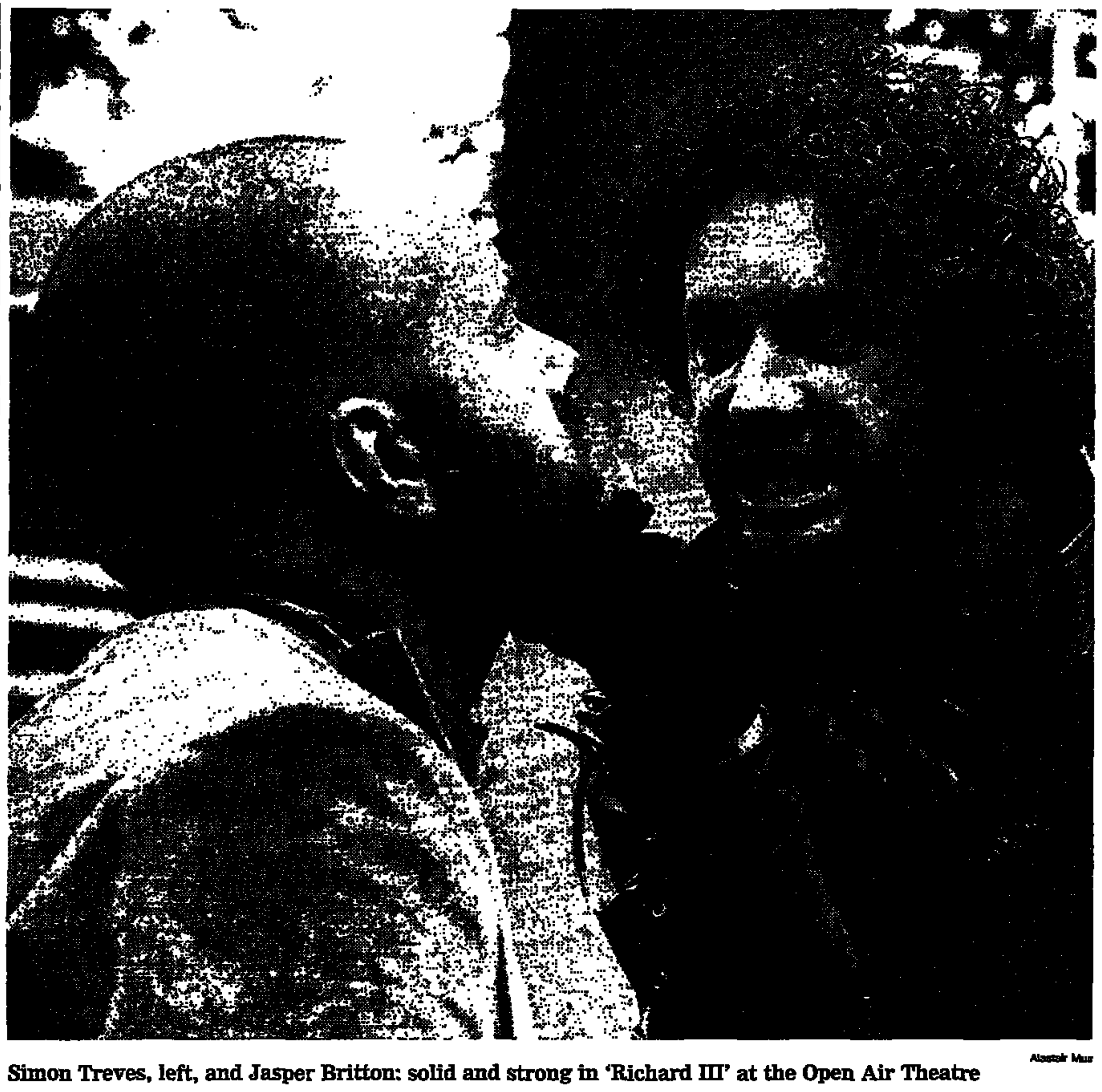
The Czech soprano Eva Jenis sang a bright, confident Vixen, playing her more as a woman in fox-fur than a creature of nature; Hana Minutillo was her beau, the Fox, uncomfortable with some of the higher music, as mezzos often are in this role.

Hytner had their courtship take place on a double-bed made from fences and a quilt of leaves. Later, as parents of a sizable litter, they had become the perfect middle-aged couple: she wore an ankle-length dress, he had braces and a cardigan.

By contrast with the bright colours of the forest, human life seemed a drab existence. The Schoolmaster and the Priest, sung by Josef Hajna and Richard Novak, boozed their evenings away in an inn shaped like a giant cognac bottle. When the schoolmaster gets tipsy and falls over, the set turned upside down and cartoon-style stars twinkled in his eyes – a delightful touch. Thomas Allen made the gamekeeper worldly and sympathetic, lifting the opera on to a higher plane in the final scene, as every singer of the role should.

If the Châtelet is to pursue a full Janáček cycle, this made a good start. Next season Simon Rattle and the City of Birmingham Symphony Orchestra keep up the British connection when they visit for a new production of *Jenufa*.

Of all the products to travel through the Channel tunnel, a trade in Czech operas must be among the most unlikely.



Simon Treves, left, and Jasper Britton: solid and strong in 'Richard III' at the Open Air Theatre Alastair Muir

Theatre

'Richard III' at speed

For the Open Air Theatre in Regent's Park, the actor Brian Cox has staged Shakespeare's *Richard III*. Not their usual kind of show, but surprisingly effective; and much the same could be said of their Richard, Jasper Britton, who played the weedy Dauphin in Shaw's *Saint Joan* last year as if to the shrinking manner born.

Cox himself is not to be seen, but his style as an actor – energetic, truculent, no-nonsense – is vigorously stamped upon the whole production.

It goes at a terrific pace; the text is shortened, of course, but an astonishing amount of it is retained, and projected with sterling clarity. Almost every scene comes snapping at the heels of the previous one, with scarcely time to draw breath. The actors pelt up and down the gangways as if in constant panic.

Richard III is not much of an outdoors play, so there is more stage than is usual in this venue. Tanya McCallin's set is mostly scaffolding, with a long forward platform through which Richard erupts at the start, maggot-naked but for some ugly bandages.

He dons his custom-built, misshapen jacket and trews while snarling his way through "Now is the winter of our discontent . . ." What was mere greenstick boyishness in Britton's Dauphin becomes vicious malcontent here, trembling at the end into fearful collapse.

Black comedy is inevitable, since with the cut text the endless series of murders proceeds at near-farcical speed.

Yet the key scenes strike home with force: if the seduction of Lady Anne (Natascha McElhone, fair and faint) is even less plausible than usual, everything that is frankly nasty gets a sharp cutting edge.

There is a splendid Queen Margaret from Anne White, hurling her curses like grenades, and the set-piece for the three bereft women (including Veronica Clifford's formidable Duchess and Harriet Thorpe's grim Elizabeth) is hair-raising.

Among an excellent cast, many of them in double or triple roles, Brian Protheroe's wary Hastings stands out. So do Simon Treves' solid Buckingham; Peter de Jersey's Rivers and Richmond; and Christopher Hollis's Tyrrel and Blunt.

But it is Richard who must carry the evening (there will be matinees, but Jason Taylor's lighting is predicated on nocturnal darkness); and Britton's stamina is no less impressive than his glinting intelligence, wit and crooked mobility. His performance will stick uncomfortably in one's mind for a long time.

David Murray

Theatre/**Ian Shuttleworth**

Icon of the sixties masters the old times

The experience of seeing Julie Christie on stage does not attain the near-religious dimensions alluded to in some other critical quarters for those of us who grew up during her campaigning years rather than her golden screen era.

If we needed reminding, however, Theatr Clwyd has thoughtfully programmed a cinema season of Christie's greatest achievements in parallel with her impressive performance in Lindy Davies' production of Harold Pinter's 1971 play *Old Times*.

Julian McGowan's set – an enormous would-be granite back wall behind a large, unfussy lounge area – suggests in the Emlyn Williams Theatre's large studio space, the domestic expanse of Charles Foster Kane's Xanadu shrunken to the dimensions of the prosperous chattering classes.

And, as in the Xanadu scenes of Orson Welles' film, Pinter's three characters spend their time failing ever to communicate meaningfully.

Leigh Lawson, as Deeley (oddly reminiscent, here, of Richard Johnson), and Carol Drinkwater, as Anna, impart an appropriate air of slightly stilted artificiality to the delivery of their lines, as if the characters, too, are performing rather than interacting.

Their individual threads of recollection, and that of Kate (Christie), gradually twine together but grow no closer to constituting a common past. Anna may or may not be a past lover of Kate's, or the personification of an aspect of her personality, or a figment of the dead past, or all three: her status, like the old times themselves, is essentially elusive.

Kate's other-worldliness is paradoxically rendered by Christie in a more naturalistic performance than those of her fellows: when she breaks out of her frequent silences she is recognisably a person rather than a persona.

What seems at first like a flaw in Christie's performance – an inability to subordinate herself to the demands of Pinterishness – slowly acquires strength until, in her closing remembrance, it meshes with Kate's nature as the only one of the three who genuinely inhabits both the past and the present, as Deeley and Kate lapse into tearful silence.

The passage of time since the play's composition has also fortified its resonance.

When it was written, its characters were recalling the joys of early 1950s London immediately post-austerity; however, it is impossible to read this production except as centring on the recollection by three fortysomethings of the glorious 1960s in what is now a (for them) more comfortable but hollower world.

In this respect, of course, Christie's presence as a late-60s icon does no harm to the atmosphere of mis-remembrance of things past.

Old Times constitutes an object example of outgoing artistic director Helena Kaut-Howson's policy of marrying audience appeal to programming which gently pushes the envelope of mainstream theatre-going. On its own terms, it achieves a power undeniable even by those for whom Pinter may not be their particular tea party.

At Theatr Clwyd, Mold, until June 10 (01352-755114).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERTS

Het Concertgebouw Tel: (020) 671 8345

● Royal Concertgebouw Orchestra: with the Netherlands Radio Choir. Mariss Jansons conducts Schoenberg and Shostakovich; 8.15pm; Jun 9

GALLERIES

Nieuwe Kerk Tel: (020) 676 6096

● World Press Photo Exhibition: exhibition of 200 photographs chosen from approximately 30,000; to Jun 5

OPERA/BALLET

Het Muziektheater Tel: (020) 551 8922

● Die Meistersinger von Nürnberg: by Wagner. Hartmut Haenchen conducts the Netherlands Philharmonic Orchestra and soloists Jan Hendrik Rootering and Siegfried Vogel; 5.30pm; Jun 4 (1.30pm), 7

Royal Theatre Carré Tel: (020) 320 2500

● Esmée: by Loevendie. World premiere based on a true story during the German occupation. Friedemann Layer conducts the Netherlands Radio Philharmonic and soloists Jeanne Piland and Marie Angel; 8.15pm; Jun 2, 4, 6, 8

■ BERLIN

CONCERTS

Konzerthaus Tel: (020) 309 21 02/ 21 03

● Berlin Symphony Orchestra: with trumpet player Reinhold Friedrich. Michael Schonwandt conducts Copland, Zimmerman and Haydn;. 8pm; Jun 4

● Moscow Chamber Orchestra: with violincellist Boris Pergamenschikow. Constantine Orbelian conducts Mozart and Tchaikovsky; 8pm; Jun 7

● Orchestra of the Deutsche Oper Berlin: with pianist Bruno Leonardo Gelber. Jiri Belohlavek conducts Shostakovich's "Symphony No.1" and Brahms' "Concert for Piano and Orchestra No.2"; 8pm; Jun 8

● Radio Symphony Orchestra Berlin: with violinist Kolja Blacher. Mosche Atzmon conducts Stravinsky and Tchaikovsky; 8pm; Jun 2

● The English Concert Orchestra: Trevor Pinnock conducts Purcell in a concert that commemorates the 300th anniversary of the composer's death; 8pm; Jun 5

■ FRANKFURT

OPERA/BALLET

Frankfurt Oper Tel: (069) 80 65 20 52

● Pina Bausch: choreographs "Cafe Müller" and "La Sacre du Printemps" to the music of Purcell and Stravinsky; 8pm; Jun 4, 5

Oper Frankfurt Tel: (069) 23 60 61

● *Lady Macbeth of Mtsensk: by Shostakovich. Conducted by Guido* Johannes Rumstadt and produced by Werner Schroeter. Soloists include Valeri Alexejev, Ryszard Karczykowski and Christine Ciesinski; 7.30pm; Jun 5

■ LONDON

CONCERTS

Barbican Tel: (0171) 638 8891

● Grand Classical Gala: David Coleman conducts the National Symphony Orchestra and tenor Anthony Mee to play a selection of classical favourites; 7.30pm; Jun 4

● Sonny Rollins: jazz tenor saxophonist and one of the last survivors from a generation that included Miles Davis and John Coltrane; 7.30pm; Jun 3

Royal Festival Hall Tel: (0171) 928 8800

● Philharmonia Orchestra: with soprano Alison Hagley, mezzo-soprano Catherine Robbin and tenor John Mark Ainsley. John Eliot Gardiner conducts Elgar's "Enigma Variations" and Britten's "Spring Symphony"; 7.30pm; Jun 4

● Philharmonia Orchestra: with violinist Maxim Vengerov. John Eliot Gardiner conducts Elgar, Bruch and Mendelssohn; 7.30pm; Jun 8

● Royal Philharmonic Orchestra: with mezzo-soprano Olga Borodina, baritone Sergei Alexashkin and the Brighton Festival Chorus. Valery Gergiev conducts Berlioz's "Romeo and Juliet"; 7.30pm; Jun 3

● Vienna Philharmonic Orchestra: Seiji Ozawa conducts Berlioz, Mozart and Prokofiev; 7.30pm; Jun 2

OPERA/BALLET

Royal Opera House Tel: (0171) 304 4000

● *Billy Budd: by Britten. A new* production conducted by Robert Spano and directed by Francesca Zambello. Soloists include Graham Clark, Francis Egerton, John Duykers and Rodney Gilfry/Peter *Coleman-Wright; 7.30pm; Jun 5, 9*

● La Bohéme: by Puccini. Conducted by Jan Latham-Koenig and directed by John Copley. Soloists include Cynthia Haymon, Nancy Gustafson and Roberta Algana/Tito Beltran; 7.30pm; Jun 2, 3, 8

■ LOS ANGELES

GALLERIES

County Museum *Tel: (213) 857* 6000

● Kandinsky: Compositions: six of the seven surviving "Composition" paintings are presented along with 25 preliminary studies which trace the artist's evolution from figurative to abstract painting; from Jun 4 to Sep 3

■ NEW YORK

OPERA/BALLET

New York State Theater Tel: (212) 870 5570

● West Side Story Suite: New York City Ballet premiere. Conceived and choreographed by Jerome Robbins and featuring the music of Leonard Bernstein with lyrics by Stephen Sondheim; 8pm; Jun 2, 4 (7pm)

THEATRE

Belasco Tel: (212) 239 6200

● Hamlet: by Shakespeare. Starring Ralph Fiennes in a limited run; 8pm; to Jul 22 (not Mon)

Ethel Barymore Tel: (212) 239 6200

● Indiscretions: based on Jean Cocteau's "Les Parents Terribles" in *a new translation by Jeremy Sams* and starring Kathleen Turner, Eileen Atkins and Roger Rees; 8pm; (not Mon)

■ PARIS

CONCERTS

Châtelet Tel: (1) 40 28 28 40

● New York Philharmonic: Kurt Masur conducts Strauss' "Métamorphosis" and Beethoven's "Symphony No.3"; 8pm; Jun 7

● New York Philharmonic: Kurt Masur conducts Shostakovich and Beethoven; 8pm; Jun 9

GALLERIES

American Center Tel: (1) 44 73 77 77

● Micromegas: works by European and American artists reflecting on scale and size; to Jun 4

OPERA/BALLET

Champs Elysées Tel: (1) 49 52 50 50

● Ezio: by Handel. Conducted by Robert King, directed by Sephen Medcalf and with the King's Consort. Soloists include James Bowman, Susan Gritton and Dominique Visse; 7.30pm; Jun 6, 7, 9

Opéra National de Paris, Bastille Tel: (1) 47 42 57 50

● Les Capulet et les Montaigu: by Bellini. Conducted by Bruno Campanella and produced by Robert Carsen; 7.30pm; Jun 3, 5, 9

■ VIENNA

CONCERTS

Wiener Konzerthaus Tel: (1) 712 1211

● Symphonic Ensemble: Franz Welser-Möst conducts Liszt's "Les Préludes" and Shostakovich's *"Symphony No.7"; 7.30pm; Jun 7*

● Viennese Symphony Orchestra: with pianist Radu Lupu. Kurt Sanderling conducts Beethoven and Shostakovich; 7.30pm; Jun 3

● Viennese Symphony Orchestra: with soprano Christiane Oelze. Michael Gielen conducts Mahler and Webern; 7.30pm; Jun 8

THEATRE

Museumsquartier Tel: (1) 589 2239

● Hiroshima: the Seven Streams of the River Ota. Produced by Robert Lepage in English as part of the festival in Vienna; 7pm; Jun 2, 3

■ WASHINGTON

CONCERTS

Kennedy Center Tel: (202) 467 4600

● National Symphony Orchestra: with pianist André Watts and soprano Bridgett Hooks. James Conlon conducts Poulenc and Brahms; 8.30pm; Jun 2, 3

GALLERIES

National Gallery Tel: (202) 737 4215

● James McNeill Whistler: retrospective of the expatriate American artist with more than 200 works; to Jul 20

THEATRE

Arena Stage Kreeger Theater Tel: (202) 554 9066

● A Month in the Country: written by Brian Friel after Ivan Turgenev. Kyle Donnelly conducts a romantic comedy; 7.30pm; to Jun 4

Folger Theater Tel: (202) 544 7077

● The Merchant of Venice: by Shakespeare. Commemorating the 400th anniversary of the play, this production is directed by Joe Banno; from Jun 2 to Jun 25

WORLD SERVICE

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17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

THE FT INTERVIEW: Lord Owen

An exit with one regret

David Owen is bowing out as co-chairman of the international conference on former Yugoslavia without apologies, and without a harsh word for his employer, the European Union. He does have a regret, which is the failure of his first peace plan for Bosnia, the one he co-authored with Cyrus Vance, and quite a few complaints – mainly about the lack of US commitment, which he believes was fatal to that and subsequent plans. He remains convinced that the Bosnian conflict can be solved only through negotiation between the parties, and that the UN, even after last week's events, can and must recover its role as an impartial humanitarian force.

Tony Andrews

David Owen: the ex-envoy has complaints but no apologies

His departure may have surprised some who did not realise he was still in the job. In contrast with the limelight surrounding the Vance-Owen plan in 1993, Lord Owen and Mr Thorvald Stoltenberg, Mr Vance's successor as UN mediator, have been much less visible in the last year or so. Their role in Bosnia has been largely taken over by the Contact Group, in which the three largest EU members work together with the US and Russia.

Lord Owen himself claims credit for this development. Experience convinced him, he says, that it was essential to have both the US and Russia fully committed to the diplomatic process if it was to be taken seriously. Even the name "contact group" was drawn from his experience as British foreign secretary in the late 1970s, when he and Mr Vance (then US secretary of state) worked with Canada, France and Germany as a contact group on Namibia.

While remaining "tied into" the Bosnian peace process, Lord Owen says he and Mr Stoltenberg have worked more intensively on the peace process in Croatia. But, he complains, "the world's not interested in Croatia". They had made striking progress in getting Serbs and Croats to agree on a series of economic issues – "I became an expert in electricity generation and water engineering, and even created an international oil company" – but "all of that was blown up by the fighting over western Slavonija" in April. "It will be hard to get those negotiations back on track, but in many ways they're the most important. Unless you can get the Zagreb-Belgrade relationship working, you're in serious trouble."

Another contribution Lord Owen claims credit for is the establishment of a mission in Belgrade to monitor the implementation by the rump Yugoslavia of its embargo on supplies to the Bosnian Serbs. This too involved complex negotiations with the Croatian Serbs, through whose territory most of the supplies had been going. The Croatian government had to be persuaded to allow the Croatian Serbs (whom it regards as rebels) to receive enough oil for their own use, as the price of getting Serbia to stop sending supplies through their territory to Bosnia. "The complexity of these arrangements was not fully understood by all members of the UN Security Council, but it was very well understood by [Mr Slobodan] Milosevic [the Serbian president]."

That statement, with its jibe at the Security Council and its tribute to Mr Milosevic's sophistication, is vintage Owen.

He takes pride in the fact that he and Mr Vance "kept open a dialogue" with Mr Milosevic even when they were working closely with his Serbian opponents, who at that time controlled the federal Yugoslav government. ("People forget how low his fortunes were.") He gives credit to Mr Vance for first establishing the relationship with Mr Milosevic, when negotiating the ceasefire in Croatia at the end of 1991. He regards the recent establishment of a direct dialogue between Mr Milosevic and the US administration as "the most important shift in US policy", which has taken three years to achieve.

At the same time, he warns against relying on Mr Milosevic "to the exclusion of the parties in Bosnia-Hercegovina". He admits that Mr Radovan Karadzic, the Bosnian Serb leader, has made it very difficult to have a dialogue with him. But he argues that if that is not possible it should be "generals to generals", since the territorial issues still in dispute between the Bosnian government and its Serb opponents are essentially of a strategic nature.

Lord Owen admits that, after the failure of the Vance-Owen plan in May 1993, his role in Bosnia was reduced to brokering a settlement based essentially on realpolitik. "History has already shown," he says, "that that was the last opportunity to stitch the country together, reverse ethnic cleansing (even if it could never have been done totally), and live up to the moral positions of the London conference". (It was at that conference, in August 1992, that his appointment was announced.) He still believes the Bosnian Serbs could have been pressurised into accepting the plan if the US had put its weight behind it. "But it needed 60,000 troops, and they were not prepared to do it."

By contrast he remains critical of the "safe areas" concept, adopted by the Security Council just after the plan had failed. This, he says, encouraged ethnic cleansing, and also gave UN commanders an impossible mandate, both because they were not given enough troops to carry it out and because it was not specified that the areas should be demilitarised. The Bosnian army therefore continued to fire out of them, and "it was hard to expect the Serbs not to fire back".

Lord Owen hopes to make the remainder of his career in international business. So far he is a non-executive director of Coats Viyella, the UK textiles group. He has an office in Queen Anne's Gate, Westminster, where he answers the telephone himself. ("I'm a great believer in the cottage office.")

He does not believe he has failed in Yugoslavia, any more than he did in his previous incarnation as leader of Britain's Social Democratic Party, formed after the split in the Labour party in 1981. "I don't believe the SDP failed," he says, since the Labour party has now accepted its ideas on "every single issue" which caused that split.

Similarly, he believes the eventual solution in Bosnia will be based on the peace plan he and Mr Stoltenberg negotiated with the parties in the late summer and autumn of 1993. This later became the EU plan and is now the basis of the Contact Group's proposals.

Edward Mortimer

Recession still looms despite signs of confidence, says **Leslie Crawford**

Mexico's vigil of woe

Outside Mexico City's baroque cathedral, a vigil of the unemployed loses a little faith each day. Hundreds of workers stand with their tools at the ready and small cardboard notices advertising their services: plumber, carpenter, bricklayer. Some have not worked in months. Soup kitchens are mushrooming in poor neighbourhoods.

An estimated 800,000 jobs have been lost since the financial crisis plunged the economy into recession. Another 4m are working less than 15 hours a week – perhaps 10 per cent of the working population.

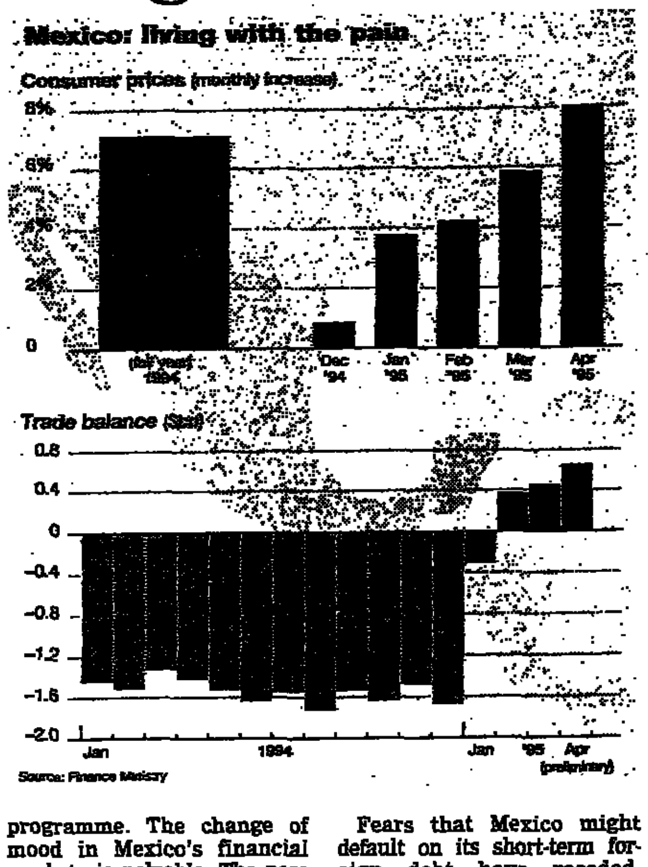
"The real economy has plummeted with the gliding angle of a brick," a senior finance ministry official says. The shock of December's devaluation of the peso, coupled with soaring interest rates and a credit freeze, caused output to drop 9.1 per cent in the first three months of the year relative to the final quarter of last year.

Mr Guillermo Ortiz, the finance minister, has warned that the recession will deepen in the second and third quarters, after which the economy should begin to show signs of recovery. However, most economists in Mexico and abroad believe Mr Ortiz is erring on the side of optimism. They believe this year's recession will be worse than the economic collapse which followed the 1982 debt crisis, when gross domestic product shrank 4.3 per cent in a year.

Then, as now, Mexico is being forced to adjust to the sudden reversal of foreign capital flows through a big contraction in demand. Imports showed their first sharp fall in April, down 15 per cent on the same month last year – with imports of consumer goods down by a third. Intermediate imports associated with export industries now account for three-quarters of the total, while purchases of capital goods remain depressed, reflecting low investment.

Exports have responded remarkably well to the devaluation of the peso, turning a $5.7bn trade deficit in the first four months of last year into a $1.2bn surplus in the year to April. The motor industry is now exporting three cars for every one it sells at home as domestic sales have shrunk 60 per cent. Chemical, textile and steel exports grew 67 per cent in the first four months of this year.

The trade surplus has been an important factor behind the growing confidence expressed in the government's austerity programme. The change of mood in Mexico's financial markets is palpable. The peso has stabilised at about 6.15 to the dollar from its all-time low of 7.45 in early March, although it is still vulnerable to the wide fluctuations in Mexican interest rates. The benchmark interest rate on 28-day treasury bills, known as Cetes, has fallen from a peak of 82.65 per cent in the financial turmoil of early March to 51.99 per cent at this week's auction. When the rate dipped below 50 per cent last week, the peso weakened markedly against the dollar – a sign that investors are still demanding high returns to remain in pesos.



Source: Finance Ministry

The business community appears to be adjusting to the novelty of a floating exchange rate. And the stock market has rallied by more than 50 per cent in dollar terms as investors seek to recoup earlier losses. Inflation is believed to have peaked at 8 per cent in April, while interest rates are declining.

Fears that Mexico might default on its short-term foreign debt have receded, although there will be little respite from the heavy repayment schedule until the end of August. The emergency funds provided by the US Treasury and International Monetary Fund have allowed Mexico to redeem almost $17bn of dollar-linked treasury bills, known as tesobonos, as well as $9.49bn on other external debt.

With another $7.32bn in tesobonos falling due over the next three months, Mexico will have to draw down additional US and IMF funds. But officials at the finance ministry are encouraged by the fact that a growing proportion of maturing debt is being reinvested in Mexico – an indication that the tight monetary policy is having some success in stemming capital flight.

"To the extent that dollars remain in the economy, more credit will be available and interest rates will begin to fall," says Mr Ariel Buira, a deputy governor at the central bank. This is of critical importance for Mexico's troubled banks. The fourfold increase in domestic interest rates triggered an avalanche of loan defaults just as the financial crisis suddenly cut off their access to foreign credit.

The central bank has provided billions of dollars in emergency credit and long-term funds to enable banks to restructure bad debts. The extent of the damage, however, remains unknown. Economists fear the wholesale rescheduling of loans that have already fallen due and are not being repaid has merely postponed the inevitable day of reckoning for some of the weaker institutions. They warn there may be bank failures before the end of the year.

The banking law was amended earlier this year to allow majority foreign ownership of domestic banks in the hope that some foreign investors may be found to recapitalise Mexico's debilitated financial groups.

Earlier this week, Banco Bilbao Vizcaya of Spain became the first foreign bank to acquire a majority shareholding in a Mexican bank when it took control of Probursa, a small bank burdened with a huge portfolio of bad debts. The government helped the transaction by agreeing to take $800m of bad loans off Probursa's balance sheet.

President Ernesto Zedillo is keen to promote foreign direct investment in all sectors of the economy, which he regards as the only way of reducing Mexico's dependence on short-term finance. Mr Zedillo has said he intends to privatise "everything allowed by the constitution".

However, beyond immediate crisis management and hopes that exports and foreign direct investment will continue to grow, Mr Zedillo has given little indication of how he intends to steer the economy back to growth. There were few firm proposals in the National Development Plan announced this week to deal with Mexico's low domestic savings rate, contain the crippling cost of the state-run social security system, or create 1m new jobs each year for Mexico's young workforce.

It is problems such as these that Mr Zedillo must address if he is to convince those who stand in vigil outside the cathedral in Mexico City that the present crisis, although painful, will be transitory.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

US/Japan trade dispute may lead to WTO 'bust-up'

From Sir Roy Denman.

Sir, The European Union's approach to the dispute between Japan and the US on cars seems strangely blinkered.

The European Commission is entirely correct in declaring that the US action, in threatening unilateral tariff increases if Japan does not comply with its requests, violates international trading rules. When Mr Ron Brown, US commerce secretary, says opinions on the legality of these measures are mixed he is condoning dangerous rubbish ("Japan ahead by a nose in hearts and minds battle", May 26). The World Trade Organisation, like the General Agreement on Tariffs and Trade before it, stands for the rule of law in international trade. After all, it was an American who once said cases were better settled in a judge's chambers rather than in the chambers of a six-shooter.

This having been said, the Americans still have a problem. It has nothing to do with a large Japanese trade surplus; no international trading rules limit these. The problem is that Japan has for long limited its imports of manufactures by a variety of devices, from technical standards to cartels and arrangements between companies.This is a problem for the world trading community. The Americans have chosen the wrong way of going about it, but if it is not tackled Congress will deal with it. This would be like turning a man-eating tiger loose in a shopping mall.

Meanwhile, the Commission is standing on the sidelines, clucking its tongue at the Americans and endeavouring to attract admiring glances from the Japanese. This will get it nowhere. But there is a perfectly legal route which the Americans have initiated but have not yet concluded. An article of Gatt, now the WTO, has long provided that if any member considers that the benefits it has secured in trade negotiations are being "nullified or impaired" by another and it cannot get satisfaction, then it can ask the WTO for authority to raise tariffs against the party concerned.

Ironically, the Commission suggested joint action on these lines to Washington in 1982. The Americans said that they were not prepared to "gang up" against Japan. In vain the Europeans pointed out that they did not want to gang up against anyone, but simply wanted to ensure that all members of the world trading club fully paid their dues in terms of open markets for imports.

This is an area where the US and Europe, and other world trading nations, can co-operate to remove a real irritant to world trade. If the Americans are left to go it alone on a non-legal route then Congress will take over. And Congress could bust up the WTO.

Roy Denman,
26 St Luke's Street,
London SW3 3RP, UK

Cashflow measure an important aid to investment

From Mr Chris Faber.

Sir, The "Valuation yardsticks" Lex column (May 30) should be applauded for its recognition that simplistic, accounting-based measures such as price/earnings multiples and yield should be complemented by analysis which strips out accounting distortions. Its recognition of return on capital as an alternative measure is a step in the right direction, but equity market participants are still way ahead of you.

Leading investors in the equity market look beyond return on capital and pay for cashflow return on investment. To date, there are 28 institutional investors in the City who rely on this as a measure of corporate performance. This measure eliminates accounting distortions mentioned in your article such as leases and goodwill, inflation, depreciation and revaluations. Your readers may be interested in knowing that when adjusted for these distortions, the cashflow return on investment for "UK plc" is between 6 per cent and 8 per cent as compared to the still-overstated 18 per cent to 24 per cent return on capital highlighted in your column.

On a company-specific basis, monitoring this measure leads to significant insights about whether management strategy is likely to enhance or destroy shareholder value. Lloyd's Chemist, for example, boasts a 32 per cent return on equity and a 28 per cent return on capital employed, which would lead one to believe aggressive growth should increase shareholder value because returns exceed the cost of capital. However, cashflow return on investment is only 3 per cent, which leads to the insight that aggressive growth is actually destroying shareholder value because returns are below the cost of capital.

Chris Faber,
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US

Some little piggies do fly

From Mr Roy Suckling.

Sir, The Observer column's normally humorous last item, on May 31 under the headline, "Fattened up", reads:

"And so another month ends. All targets met. All systems working. All customers satisfied. All staff eager and enthusiastic. All pigs fed and ready to fly."

In our case this is a normal and highly satisfactory monthly report.

Roy Suckling,
director,
Suckling Airways,
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Newmarket Road,
Cambridge CB5 8RT, UK

Little of substance seems required of new CBI leader

From Mr Ralph Windle.

Sir, Like others, I occasionally scan the job advertisements (especially Top Jobs) with the same dispassionate interest as for the obituaries or court circular.

So, given the imminent and sadly premature departure of Howard Davies, who could fail to notice the prominent ads for a successor director-general of the Confederation of British Industry.

Interesting reading. Was it the CBI, or possibly Norman Broadbent International, which seemed to be downgrading this important role to something between a public relations officer free-to-travel and a spin doctor?

Beyond the obvious bromides about "leadership and stature" (mainly artefacts of image-makers these days) the only specific attributes demanded relate to "communication", "promotion", "skills as a speaker, broadcaster and writer" and so on. Certainly some decent aptitude for expression might not come amiss. But what about the substance?

Totally absent was any mention of real industrial experience, technology, manufacturing, industrial relations, markets, investment – even a smattering of economics or sustained executive achievement. What about the skills to start converting the UK's too-numerous employer federations into something like the real confederation of British industry we so badly lack? Getting a better competitive product to "promote"?

Surely chatting up the press and ministers can't be everything can it? No wonder hearts are a-flutter among the "chattering classes", business journalists, PR agencies, broadcasters and career-anxious junior ministers. What about a woman to wake them up in the Athenaeum?

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Friday June 2 1995

Message from Messina

By choosing Messina as the place for today's meeting to launch the "reflection group" which will prepare next year's intergovernmental conference (IGC), the Italian government has issued a deliberate challenge to its EU partners. For the British government it is almost a provocation. Messina was where the original Six met and agreed to found the common market back in 1955. British reaction at the time was notoriously dismissive, and many of Britain's subsequent European travails have been attributed to its failure to "board the train" before it departed.

The British government is not alone in being unconvinced that the moment has come for another leap forward in European integration. Almost all the EU's member states are still nursing their bruises after the battle to ratify the Maastricht treaty, or, in the case of the three new member states, their accession treaties.

Even the Germans, who with the Italians insisted on writing 1996 into the Maastricht treaty as the date for a revision conference, now wish that 1996 was not coming quite so soon. They were and are frustrated with the compromises on political union that they had to accept in 1991. But the federal union of their dreams seems if anything even less attainable now than it was then.

The temptation to settle for "a 12,000-mile service rather than a new engine", in other words to confine the IGC to making minor improvements in the treaty on which consensus can easily be reached, is strong. But it should be resisted.

Imperfect operation

The present union of 15 members already functions very imperfectly with institutions originally designed for a community of six. The Commission has grown too big to function as a single-minded executive, and the Council finds it increasingly difficult to take decisions, especially on those issues which require unanimity. At the same time the expanding competence of the union, accepted with varying degrees of reluctance in different areas by the member states, has led to a variety of decision-making procedures such that experts are unable to agree even on how many different ones there are. No wonder the general public is bemused and alienated.

A grand simplification and rationalisation would be badly needed even if there were no immediate prospect of further enlargement. But expansion is precisely what is in prospect. One applicant country, Cyprus, has now been formally told that it can begin accession negotiations six months after the IGC finishes – which means probably *before* many member states have ratified the conclusions. Another applicant, Malta, whose small size raises specific institutional problems, will almost certainly negotiate at the same time; and at least three of the central European applicants – the Czech Republic, Hungary and Poland – will be close behind if not alongside. The union must thus expect to have at least 20 members within 10 years, and possibly more.

Streamlining essential

The sheer expansion in numbers will make some streamlining of the union's procedures essential. If all the big states insist on keeping two commissioners each, in addition to one each for the small ones, the Commission will lose all credibility as an executive body. Unanimity in the Council will likewise be much harder to attain. In the interests of efficiency, the types of decision requiring unanimity will have to be reduced to a minimum, with perhaps a compensating provision for states to opt out of some decisions to which they have a strong objection.

This is particularly relevant in the area of foreign and security policy, where the Maastricht provisions are clearly inadequate. And that area will take on even greater import as enlargement takes the union's borders closer to zones of instability in the east and south-east. Indeed, for the newcomers it will be of much more immediate import than the single currency, for which the Maastricht provisions are so much more detailed.

Finally, the larger and more diverse the union, the more imperative it becomes to safeguard that diversity by limiting the union's competence to those areas where common action is strictly necessary. It should not try do too much, but those things it needs to do it must be able to do well.

Private prisons in perspective

Since Lady Thatcher's day, most UK privatisations have been high-profile exercises in popular capitalism. Not so the privatisation of Britain's prisons, which has been greeted with little ministerial fanfare and no public flotation.

Yet prison privatisation, which took a significant step forward yesterday with the announcement of two new private prisons, is as significant as any. In principle, if a prison can be designed, financed, built and managed by a private company, it is hard to see why any other governmental activity need be directly provided by the state.

The point is all the stronger since prison privatisation is directly encroaching on the sphere of the police. The job of conveying prisoners between jails and the courts, largely in the hands of the police until now, is being contracted out to the same security firms which are operating and bidding for private prisons. Within a year, the entire court escort service will be in private hands.

It is a sign of the triumph of privatisation that a policy regarded as beyond the pale even five years ago should be in various stages of implementation in countries as diverse as the UK, the United States, Australia, Canada and New Zealand. The potential advantages to be gained from *dividing ownership* and *management* from regulation are now widely appreciated, and the number of critics opposing the contracting out of custody services on principle is shrinking.

Prison privatisation should be judged by three yardsticks – the value for money it provides; its impact on security and the prison regime; and its success in improving standards and efficiency within the state sector.

Cost savings

The number of private prisons is too few, and the experience of them – even in the US – too recent, to reach more than tentative judgments. But their record in the UK is sufficiently encouraging to believe that the policy is worth continuing – and that even if a future Labour government is cautious about wholesale privatisation, it would do well to cultivate a small private prison sector as a *stimulant* for state run prisons. This in essence is the existing policy, which is largely restricted to franchising new prisons, with an aim of having about 10 per cent of prisons in the private sector by 2000.

It is not hard to see why contracting-out should produce cost savings. Prison services are notorious for their restrictive practices, which governments have been reluctant to disturb. Prison construction has suffered from the delays and cost over-runs typical of large construction projects, particularly in the public sector.

Tougher life

More problematic is the question of prison regimes. Obviously governments want greater security and fewer escapes, and insofar as the setting of performance targets helps to secure those goals it will be universally welcomed.

The setting of contracts can also have a dramatic effect on prison conditions. This is not because of *any inherent superiority in private operators*, although the opportunity to gain an infusion of new blood into prison management and custody may be valuable. Rather, the decision to lay prison conditions down in contracts has inevitably resulted in improvements, since conditions in older prisons are patently substandard and could hardly be stipulated in private contracts.

However, the issue of prison conditions is not straightforward. If ministers are looking to private *operators to improve or change* those conditions, they need to be open about their policies and seek to carry public opinion behind them – and not leave private operators to carry the can.

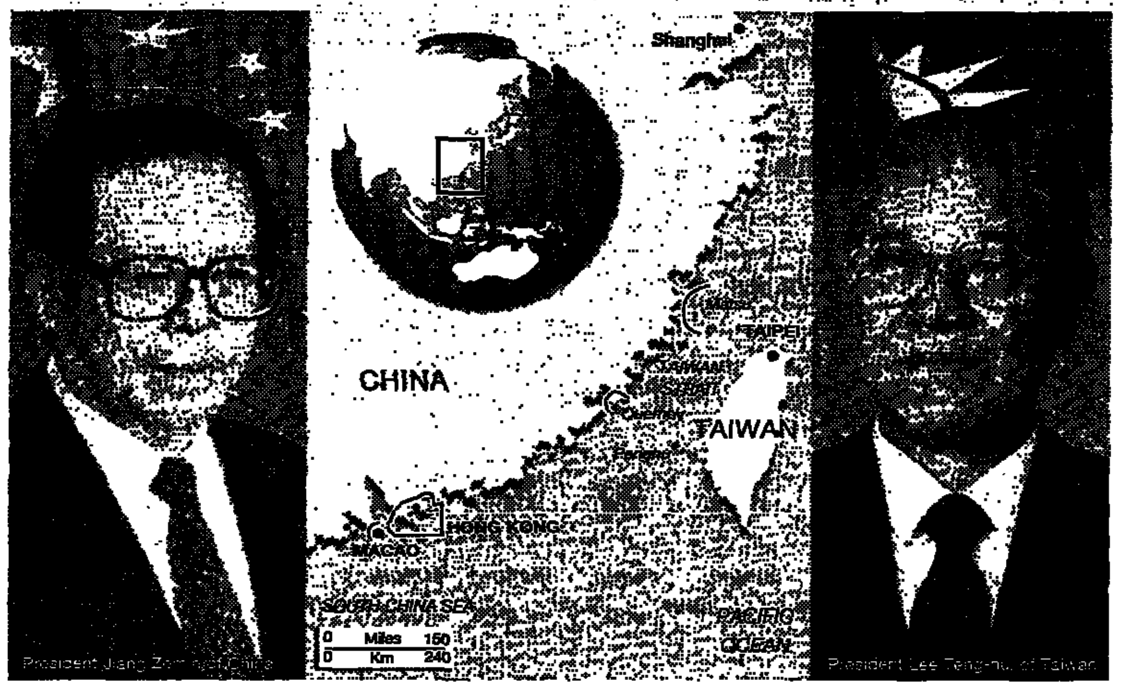
Calling for a tougher life for prisoners is the staple diet of politicians anxious for a populist cry. Mr Michael Howard, the home secretary, acted true to form in his recent call for an "austere" prison régime. Private operators fear that they will be expected to chop and change the prison regime in respects such as visiting times and hours of confinement in response to such pressure.

Penal policy must remain a matter for politicians and parliaments. The best privatisation can offer is the possibility of implementing their decisions more economically and effectively.

Strained relations in family feud

Beijing's efforts to reassert its claim to Taiwan come as the island gears up for elections, says **Laura Tyson**

Taiwan and China: close relatives or divorced couple?



President Jiang Zemin of China — President Lee Teng-hui of Taiwan

China's diplomatic reprisals against the US for allowing President Lee Teng-hui of Taiwan to pay a private visit in June have again focused attention on relations between what used to be known as "the two Chinas".

Beijing uses every opportunity to reassert its claim that Taiwan rightfully belongs to China. With the retrieval of Hong Kong and Macao, in 1997 and 1999 respectively, well in hand, China is stepping up its diplomatic offensive for reunifying the two countries.

But Taiwan has become increasingly assertive as it transforms itself from a military dictatorship to a flourishing democracy. The Taiwanese will elect their president for the first time next year, in a process likely to increase the island's desire for self-determination.

Both countries acknowledge their close relationship. Mr Jiang Zemin, China's president, depicted the bond as that of "father and son" in a speech in January calling for closer ties with Taiwan leading ultimately to reunification.

Mr Lee borrowed the analogy of "older brother and younger brother" in his riposte to Mr Jiang to describe his vision of relations between China and the island Beijing regards as a rebel-occupied province.

Ms Hsiu-lian Annette Lu, a legislator from the Democratic Progressive party (DPP), Taiwan's leading opposition, and co-chair of the legislature's foreign affairs committee, prefers a different metaphor: that of a divorced couple. "China divorced Taiwan 100 years ago, and now it feels regretful because the ex-wife has become so attractive," she says. "So now they say, 'I still love you, will you marry me again?'"

Ms Lu, a former political prisoner who recently declared her candidacy for the vice-presidency, adds: "Beijing has never given up the threat of military invasion. Besides, China still tries to prevent Taiwan from going out and dating and making friends with the world. Taiwan is now an emancipated ex-wife who is not happy to return to the arms of her ex-husband."

Since the United Nations switched recognition from Taipei to Beijing in 1972, China has successfully employed strong-arm tactics to persuade all but a handful of small countries to concede – publicly at least – that Taiwan belongs to it.

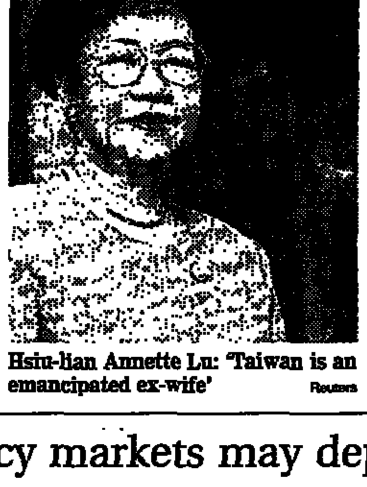
Mr Peng Ming-min, a legal scholar seen as the DPP's most likely presidential candidate, argues that Beijing's legal claim over Taiwan is tenuous at best. "Purely from a legal point of view, there is no document or treaty with legal effect which says that Taiwan is a part of China," he says.

China controlled Taiwan only from 1887, when the island was made a province, until 1895, when the imperial court ceded it to Japan "in perpetuity".

"What is the actual basis for mainland China's claim over Taiwan?" asks Mr Peng, a former political exile known as the "godfather" of the Taiwan independence movement. He returned to Taiwan two years ago after 23 years in the US. "One justification is that 'We are all Chinese' – but can origin of population be a basis for a legal claim? The other is that China has an ancient territorial claim, but this is not sufficient either."

During the second world war, the allies called for the restoration of "Formosa [Taiwan] and the Pescadores [Penghu, a group of small islands in the Taiwan strait]" to the Republic of China. But the two declarations – in 1943 and 1945 – were policy statements rather than legally binding documents, Mr Peng says. Japan renounced all claim over Taiwan in the San Francisco treaty of 1951 – but this did not specify the country to which sovereignty was to be transferred. Taipei and Japan signed a treaty with the same wording shortly after, but again no beneficiary was named.

To back its claim, Beijing cites the Shanghai Communiqué, a policy statement signed in 1972 by Richard Nixon, then US president, and Mao Zedong, chairman of the Chinese Communist party. In it, the US "acknowledged" that both Beijing and Taipei agree that there is only one China and that Taiwan is part of it. Other governments use similar language: Canada "takes note of" China's claim; Japan "respects" Beijing's position. All are formulas, Mr Peng argues, to get around formal recognition of Beijing's claim to outright ownership of Taiwan, which few countries grant.



Hsiu-lian Annette Lu: 'Taiwan is an emancipated ex-wife' Reuters

But soon the world will be forced to ponder Taiwan's role in the "China family". Ms Lu says: "It's time for the world to stop spoiling China. The whole world takes it for granted that whatever China says, whatever Beijing claims about Taiwan, is fact."

Adding to the confusion, Taiwan's government also upholds the notional claim that the island is part of China – a China ruled by the Nationalists, who retreated to the island in 1949 after the defeat of Generalissimo Chiang Kai-shek by the Communists. The Nationalists also purport to seek reunification, but in Taiwan both of these claims are widely regarded as little more than lip-service to a potentially hostile China.

The presidential election, however, will force Taiwan to resolve its future. The mainstream faction which controls the Nationalist party differs from the DPP on the issue only in nuance.

"For the first time, the people on this island will choose their own leader," says Ms Lu. "No matter who gets elected, he will be the true leader, and he will have the guts and determination to say what he really wants to say. President Lee is not free to express his opinions."

For now, the government is calling on Beijing and the rest of the world to recognise Taiwan as a sovereign political entity, separate from and equal to China – so far in vain. The Nationalist claim is based more on effective control – akin to squatters' rights – than on legalities. Were it not for the threat of attack by China, many political analysts believe the ruling party would seek to formalise Taiwan's 46 years of *de facto* independence.

"No government is unilaterally going to recognise Taiwan, at least for the foreseeable future," says a western diplomat. "It's just not worth the trouble of crossing China."

But the Taiwanese are fearful of binding their fate to that of historically volatile China. And there is no consensus on the country's identity. In a recent poll, 29 per cent of respondents felt themselves to be Taiwanese; 35 per cent said they were Chinese; and 27 per cent saw themselves as both Taiwanese and Chinese. The rest were unsure.

That Taiwan is not a part of the People's Republic of China is one of the few points upon which residents of all political persuasions agree. Taiwan's future president will have little time and less ammunition to fend off an acquisitive Beijing. The island's economic dependence on China is growing and Hong Kong serves as the conduit for the majority of cross-strait trade and investment.

Beijing is already using Hong Kong's reversion to Chinese control in 1997 to force Taipei to make concessions. In recent weeks, China has thwarted Taiwan's efforts to renew an air services pact with Hong Kong and to restore limited direct shipping links to China.

For the past century, Taiwan has been shaped by different forces, both culturally and politically, from China. Mr Peng stresses that Taiwan is today distinctly different, after 50 years of Japanese occupation and the postwar period when US influence was pervasive.

"The ancestors of the majority of people here came from China but the history of the island is totally different," he says. "We have developed our own identity. We are Chinese as much as Americans, New Zealanders, Australians or Canadians are British. We have a right to self-determination."

The success of intervention in currency markets may depend on timing, argues **Robert Chote**

Symphony of support

The world's leading central banks startled the foreign exchange markets on Wednesday by intervening in concert to support the dollar. Early indications suggested that it was money well spent.

The central banks bought dollars in quiet New York trading, neatly timed to wrongfoot speculators who had placed bets that the currency would fall again. By close of play in London, the dollar was three pfennigs and two yen higher. It slipped yesterday but stayed above its pre-intervention level.

Market participants were united in admiration for the skill with which the intervention was carried out. However, they were divided in predicting whether intervention would have an enduring effect – a subject of long-running debate.

The case for such intervention has gained ground in recent years. Mr Pietro Catte and colleagues from the Bank of Italy concluded last year that concerted intervention by the Federal Reserve, the Bundesbank and the Bank of Japan had been a big influence on currency trends since the mid-1980s.

Mr Catte identified 19 significant episodes of concerted intervention between 1985 and 1991. Nine prompted an enduring reversal of the dollar's trend, seven succeeded for several months and only three were outright failures. The study also asserted that every significant dollar turning-point in that period coincided with concerted intervention.

Intervention in the currency markets since 1991 has yet to be analysed rigorously, but casual observation suggests the record has been much less impressive. The central banks have certainly been powerless to resist the dollar's slide over the past year and a half.

Conventional wisdom suggests that intervention works only if accompanied by supportive policies, especially interest rate changes. The Italian study confirmed that this was true in most cases, but found that intervention sometimes worked even when rates were on hold or moving unhelpfully.

Mr Paul Chertkow, head of global currency research at UBS, investment bank, points out that intervention and supportive policy failed to prop up the dollar in 1987, with only a brief rally after the Louvre Accord. The turning-point came in early 1988 when central banks pounced on a quiet market and bought dollars at the right price.

Mr Chertkow argues that it was shrewd of the central banks to launch Wednesday's initiative when short-term speculators were dominating the market action and longer-term investors – such as mutual funds – were sitting on the sidelines. It costs much more to support a currency when the long-term investors are sellers.

Mr Gerard Lyons, economist at DKB International, the securities house, also admires their tactics. He says they chose to intervene when the dollar looked in danger of falling through the psychological barriers of DM1.35 and Y80, both trigger points for more dollar selling.

This suggests that if intervention is to be successful, then timing is everything. As Mr Catte concluded: "It has to be used very skilfully and in the right circumstances because its effectiveness depends critically on credibility, an asset that can easily evaporate. It is essential that intervention be used only when its objectives are truly shared by the authorities involved."

Hence the care taken by Mr Robert Rubin, US Treasury secretary, to link Wednesday's intervention with last month's commitment by the Group of Seven leading industrial countries to "continue to co-operate closely in exchange markets".

The action appears consistent with the domestic economic needs of Germany and Japan. Both have been hit hard by their currencies' strength against the dollar, with exporters squealing in pain in Germany and unemployment at a post-war record high in Japan.

But the key to the long-term success of intervention may be the market's assessment of the US attitude to the dollar. As a relatively closed economy the US need not worry too much about the inflationary impact of a weak currency, or – for that matter – about the danger that a stronger one would push it back into recession.

The best tonic for the dollar might well be a perception that the US no longer believed a weak currency to be in its interests, perhaps because it had decided to fight its trade war with Japan through sanctions rather than depreciation.

But Mr Jim O'Neill of Swiss Bank Corporation doubts the US will hold the line for long: "This may just be a happy marriage of temporary convenience between the US and Germany. If their economies are stronger three months down the line, things may look very different."

This reinforces the observation of US economist Mr Benjamin Cohen that "international monetary co-operation, like passionate love, is a good thing but difficult to sustain". Experience suggests that concerted action to support the dollar will succeed only for as long as the domestic policy imperatives of the principal players point in the same direction.

OBSERVER

Hurricane Jim hits town

■ Washington is familiar with political whirlwinds. But few hit town faster than Jim Wolfensohn, who officially took over as president of the World Bank yesterday. He has also bought a large house, accepted an honorary knighthood from the hands of the British ambassador, and announced that he will have to step down as chairman of the Kennedy Centre for the Performing Arts, the *ne plus ultra* of the capital's culture.

The house, in the upmarket sector known as Kalorama, has brought relief to depressed real estate agents. But his departure from the Kennedy Centre – after five years as unpaid head – has the arts set grieving.

Wolfensohn had first said he would stay on, but then announced he could not do justice to it and the bank, for which he plans to travel six months a year. Some disappointed Kennedy board members had a slightly different view, saying the bank would not let Wolfensohn raise money for the arts as well as capital for the poorer nations.

Although Australian-born, he cannot use the "sir" in front of his name because he took American citizenship in 1981, once it became apparent that his career as an investment banker – and his ambition for the World Bank presidency – would be US-based. Still, as he told Colin Powell, another honorary knight, at the embassy investiture dinner: "I don't have to call you sir any more."

Unafjordable

■ Heard the old story about thousands of public-sector employees going on strike and no-one noticing? It got updated on Wednesday, when police, health workers, teachers and road builders downed tools in Norway. The strikers say that each day will bring an incremental tightening of the action, though up to what point – maybe until *someone* notices? – isn't clear.

The last time Norwegian police went on strike was in 1958, whereupon the government banned such unseemly behaviour. The ban was lifted this year, and once the annual wage talks collapsed, the police flexed their disgruntlement. Downtown Oslo, where crime rates are low compared with other European capitals, was as peaceful as always on Wednesday. The strike probably went off like a damp squib in a desert because Norway has a more serious preoccupation – the worst floods for more than a century.

Two legs good

■ Oktay Ekshi, head of Turkey's press council, is in Helsinki, where he is trying to convince a conference of the World Association of Press Councils to set up a body to "deal with violations" by the foreign press.

He's got his eye on examples of allegedly biased reporting by the Der Spiegel, The Times and – we have to admit – the FT itself. Ekshi thinks all these organs, which criticised Turkey's recent incursion into northern Iraq and alleged human rights violations by the Turkish army, need a jolly good telling off. Furthermore, he's pushing for a world body to regulate international print and broadcast media, because "there is no authority to deal with these things".

Thank the heavens for that. Otherwise Observer might end up in the nick – like so many Turkish journalists.

I was wrong

■ Wealthy Texan Robert Mosbacher doesn't like the US Commerce Department. He wants to see it downsized – in fact, run out of town. Which is a little strange to American ears because he was once happy enough to run the place as its secretary.

"When I became secretary of commerce, I might have been a little doubtful of whether anything could be done. Well, I was wrong... government can be a positive difference in our lives," he said near the end of his tenure.

What can we say? Times change. Mind you, Commerce officials have been more than a little surprised by his attacks on the hand that fed him. They pointedly remark that only recently a former deputy assistant secretary, who served under Mosbacher, visited the department's International Trade Administration for some assistance. The visitor is said to have sought information about forming a consortium to invest in Latin America.

And the visitor's job? Paid consultant to one Robert Mosbacher, who now operates a Houston-based energy company.

Board and lodging

■ Bernard Tapie, the colourful French businessman and politician, might soon be packing his bags for Belgium.

Tapie has so far done his best to take advantage of his parliamentary immunity, political connections and every legal ploy to delay definitive judgment on his bankruptcy, football-bribing allegations and other such affairs.

He says he won't interfere with French justice, but added that he is considering shifting his family away from the cruel spotlight of publicity which his multiple court cases have brought him. And they obviously need *somewhere* to live; the court-appointed liquidators sold one of his houses yesterday in Paris, for FFr2.7m.

The Financial Times

50 years ago

Value of the pound
Mr Craven-Ellis asked the Chancellor of the Exchequer in the House of Commons what was the price level for 1938 and 1944 taking 1913 as 100. The Chancellor replied: Comparisons with 1913 are not available. On the basis of the official cost of living index for 1914 and 1938 and of the price changes between 1938 and 1944, the price level, taking 1914 as 100, was 156 in 1938 and 239 in 1944.

Shortage of textiles
The seriousness of the textile supply position is again emphasised by the statistics of wholesale trade and stocks for April compiled by the Bank of England for the Wholesale Textile Association. The level of stocks was 23.5 per cent below the level at the end of April 1944, while turnover rose by 7.7 per cent.

Madras Electric
As with all similar concerns, publication of war-year figures has been prohibited, but the reduction from the normal dividend rate of 8 per cent, tax free, to 4 per cent less tax tells its own story of evacuation troubles and reduction of civilian consumption which was not offset by increased munitions demands.

FINANCIAL TIMES
Friday June 2 1995

How the West was wooed by US presidential rivals

By Jurek Martin in Washington

Winning the West is serious politics for anyone who wants to be US president. Over the last 24 hours three men with serious ambitions for 1996, Bill Clinton, *Bob Dole and Pete Wilson, have* been telling their potential constituents what is right and what is wrong with the country.

Much the most striking was Senator Dole, the majority leader. It was not so much what he said – another blast at the "nightmares of depravity" foisted on the country by the entertainment industry – but where he said it, in the den of iniquity, Hollywood.

Having duly consulted religious and social conservatives, Mr Dole picked up where former vice-president Dan Quayle's sermons on "family values" left off. He took on movies and "gangsta rap" music for their violent and *sexual content, ticking off a* list of the worst offenders. However, an aide confessed the senator had not seen or heard any of them.

"*We have reached the point*," he said, "where our popular culture threatens to undermine our character as a nation." He pointed a direct finger of blame at Time Warner for its promotion of suggestive music. "You have sold your souls but must you debase our nation and threaten our children as well?"

Mr Dole naturally denied attacking Hollywood was a partisan political matter. But he did not choose to mention that Mr Clinton has also suggested the entertainment industry should be more socially responsible, nor *that Mrs Tipper Gore,* wife of the vice-president, once led a campaign to clean up popular music lyrics.

Mr Clinton also has quite good connections in current Hollywood circles, which are no longer under the sway of the industry's first president, *Ronald Reagan.* Several Hollywood denizens were critical of Mr Dole, one pointing out that Hollywood was, just like Congress, in it "for short-term profit".

Governor Pete Wilson, of California, does not have to leave the state to get across his political message, though a throat operation has kept him silent and at home more than his faltering campaign needs.

But yesterday he used his pen – in the forms of executive orders *and an open letter to Californians* – to declare an end to the era of state affirmative action to benefit women and minorities. Programmes covering the employment and procurement policies of virtually every state agency will be terminated.

"No one envisioned," he wrote, "that redressing two centuries of unfairness would launch a whole new era of unfairness. But it has." Instead he was determined to recreate "the American ideal that anyone who works hard and plays by the rules has an equal chance."

Mr Dole and Mr Wilson always had a lot in common as pragmatic Republicans with more than a taste for effective govern*ment. However, the new party* political climate keeps them together in competitive lockstep on the anti-government right.

California and Hawaii apart, the West is now hostile territory for Mr Clinton. But in a two-day swing through Colorado and Montana, he has gamely tried to preach to the unconverted and unconvertible.

Montana, something of a final frontier until Californians began to emigrate there in droves, is a particularly tough nut for him to crack. It houses one of the most prominent militia movements, which is much exercised by the activities of federal agents, and *the state deeply resents govern*ment environmental policies.

But Mr Clinton took them both on. He told the paranoid right that "people should deal with each other as neighbours" not potential enemies. He again appealed for more civil public discourse and accused Republicans of "demonising" him.

Toyota to drop its graduate recruitment by one-third

By Michiyo Nakamoto in Tokyo

Toyota, Japan's leading carmaker, is to cut recruitment of university graduates next spring by about 30 per cent.

The decision – which will bring graduate recruitment to its lowest level since 1982 – reflects mounting pressures on the domestic car industry in the face of the yen's sharp rise and the risk of 100 per cent punitive tariffs on luxury cars exported to the US.

Toyota said reduced recruitment resulted from the uncertain *economic environment. It plans* to hire 140 university graduates next spring, compared with 206 this year and 883 in 1992.

The company said it had delayed a decision on how many employees it would hire for production-related jobs until it had a better view of Japan's economic state.

Overall recruitment in Japan is likely to fall this year because of the difficult outlook.

Unemployment in April hit a record 3.2 per cent, and university graduates have seen the number of *job offers fall sharply* since the late 1980s.

Toyota has also been moving a greater proportion of its production overseas, which has raised concerns about the "hollowing out" of Japanese manufacturing. It expects overseas production to rise 21 per cent this year, while exports are forecast to fall 22 per cent.

In addition to the setback to the domestic economy caused by the high yen, Toyota and other Japanese carmakers are beginning to feel the impact of US sanctions announced in the dispute over access to the Japanese car and car parts market. Leading carmakers have temporarily cut production of luxury cars bound for the US and shipments have been curtailed.

As many as 4,000 luxury cars intended for the US market are still in Japanese ports and at manufacturers' warehouses, *according to the Ministry of* International Trade and Industry. Although there is about one month before US sanctions take effect, the cost to Japanese carmakers prevented from shipping vehicles to the US already amounts to Y9.2bn ($108m), the ministry says.

The impact on the Japanese economy is forecast to be even *greater. According to a report by* Asahi Bank, the cost of reduced production by Japanese industry could be as high as Y1,400bn.

A decline in car production will lead to an even greater fall in output in related industries, the report notes. In particular, the sanctions will severely affect the steel and electronics sectors.

VW rejects legal action against former chief

Continued from Page 1

José Ignacio López de Arriortúa, Mr Liesen said he was not aware of any new evidence which contradicted an internal probe at the company. This investigation,commissioned by the supervisory board against Mr Piëch's wishes, concluded that although Mr López and colleagues had brought with them data from General Motors, their previous employer, none of it was secret.

Mr Piëch restricted yesterday's remarks to shareholders to commercial matters, repeating con*cerns about the effects of the* strong D-Mark on sales prospects.

Vehicle deliveries in the first five months were below target, he said. Worldwide sales to customers had risen 1.2 per cent by the end of May to 1.4m units, although domestic deliveries had fallen 0.6 per cent to 419,000.

The North American market *was down 33 per cent while sales* in the Asia-Pacific region were up 38 per cent.

UK-Iraq arms sales probe hits new delay

By Jimmy Burns and Robert Peston in London

The Scott report on UK sales of arms to Iraq will not be published until October at the earliest, according to the office of Sir Richard Scott, the judge who is conducting the inquiry.

The disclosure has prompted renewed criticism from senior *Tories about the conduct,* length and cost of the exercise. They also fear the report – expected to criticise several ministers – will be published at the most politically damaging time for the government, close to the Conservative party's conference and the Tory leader re-election date.

A spokesman for the inquiry said yesterday that publication was now possible in October and not July as hoped. The inquiry, running for more than 2½ years, was originally to publish its report last autumn.

Sir Richard, a senior high court judge, has justified the delay on the need to be "fair and thorough". He has sent draft extracts to civil servants and ministers, giving them the right to reply to any criticism. Some replies are thought to have taken much longer to arrive than expected.

Critics of Sir Richard, led by Lord Howe, the former foreign secretary, say the judge has brought difficulties on himself by not seeking early expert advice on the conduct of government and legislation as well as not allowing witnesses at the outset the right to legal representation.

One former Tory minister said last night: "Sir Richard has been living in a world of his own. It is a tragedy that the conduct of this inquiry has been shaped in such a way. It could have taken much less time and possibly cost less."

*Sir Richard's office refuted alle*gations by some senior members of the government that he has been distracted by outside work, saying he was engaged full-time on the report.

Poland rating

Continued from Page 1

emerging markets research at Salomon Brothers in London. Poland is seen as a success story among the former communist economies with impressive GDP and foreign trade growth and a strong private sector.

The ratings were made possible by last year's Brady agreement with western commercial banks which reduced Poland's $14bn commercial debt by almost half.

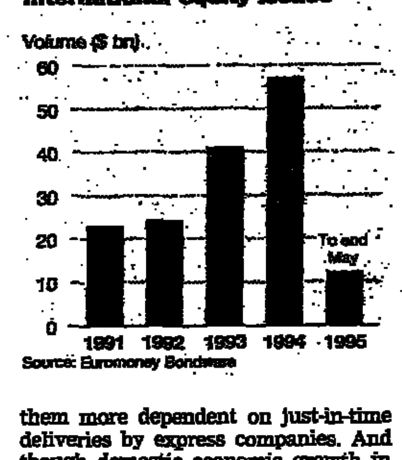
The new credit rating will help Warsaw to raise its credibility abroad. Mr Grzegorz Kolodko, the minister of finance and deputy prime minister, will shortly lead a presentation to investors in Asia, Europe and the US to *drum up support for its expected* $200m, three to five-year maturity debut eurobond issue.

THE LEX COLUMN

Buyers' market

FT-SE Eurotrack 200: 1465.2 (+23.1)

International equity issues



Source: Euromoney Bondware

Investors in the international equities market *are in an enviable position,* with an estimated $120bn of international offerings, including many privatisations, to choose from in the next 2¼ years. *A decade after BT came to* the market, fund managers can now take their pick from a range of European telecommunications companies. The result is that deals from France, Germany, Holland, Spain, and Portugal may squeeze out offerings from less developed countries.

Following a sharp retrenchment in the wake of the Mexican financial crisis, investors have started buying again. But the backlog caused by the hiatus has further tipped the balance in their favour. In spite of the hype surrounding "global" offerings, the universe of truly international fund managers is relatively small, and most are based in the US and the UK. Some 50 or 60 fund managers can make or break a deal and they often move in a herd. The result is that it is difficult for companies to buck the trend if sentiment is unfavourable.

The rationale for international placements still holds true in theory: large offerings can be placed at a *higher price by enlarging the potential* investor base. But companies with a strong domestic investor base may find little benefit in the current climate from a global offering. Still, many deals could not be done without the participation of international investors. So governments in urgent need of privatisation revenues, particularly those in emerging markets, may have to drop their prices.

Couriers

At first glance, UPS's intention to *invest more than $1bn on its European* logistics operations looks like the triumph of hope over experience. After all, express delivery services in Europe have proved rather more effective at posting parcels than profits. In the late 1980s, Federal Express, DHL, UPS and TNT spent heavily on building extensive pan-European networks. But hopes of capitalising on the creation of the single European market were *dashed. Too much capacity chas*ing too little business led to vicious price-cutting. Eventually Federal Express pulled its intra-European services, and TNT retreated into an alliance with five post offices.

This time the investment may be justified. Paradoxically, the recession has helped, forcing industrial customers to rationalise warehouses, making them more dependent on just-in-time deliveries by express companies. And though domestic economic growth in much of Europe remains sluggish, exports have been rising strongly, to the benefit of the courier companies.

Intra-European traffic is also growing fast, suggesting the potential of a single market is at last being fulfilled. *The international groups are best* placed to benefit from this trend. Small, national companies may prove able to compete on a local basis, but they do not have the strength to *rival* the international companies' tracking, tracing and billing technologies. It is now up to the big groups to deliver the financial goods.

Siebe

Siebe has a good story to tell but it has mostly fallen on deaf ears. Investors are gradually waking up, pushing *the company's share price up by 3½* per cent yesterday. But it still trades at only a modest premium to the London market. Given its growth prospects, a bigger premium would be appropriate.

Siebe met its target of increasing sales from existing operations by 10 per cent last financial year. Given that the group's order book is up by around 15 per cent, excluding the effect of acquisitions, there should be little problem hitting the target again this year. Margins are also edging up from already high levels, as the cost-control programme continues.

Siebe's main markets are expanding. Sales of appliance controls are growing as washing machines and the like sport increasingly sophisticated features. Control systems for factories are also in demand as companies seek to improve their productivity. Moreover, Siebe is winning market share. Not only are smaller rivals finding it hard to keep up the high level of research and development: Siebe is winning share from Honeywell and Emerson, its biggest competitors, in industrial control systems.

Investors have been slow to recognise Siebe's strengths because of bad experiences in the late 1980s and early 1990s when the company launched a string of rights issues and adopted questionable accounting practices. But Siebe has a new chief executive and has cleaned up its accounting practices. Doubts about the company are now harder to sustain.

Boots

Boots' cash-pile is burning a hole in its pocket. Once the final proceeds from the disposal of its drugs division arrives, the company will hold about £600m ($942m) in cash. That pile will grow: Boots the Chemists, the UK pharmacy and retailing business, continues to throw off more money than it can consume. *Thankfully, management* is not talking about further retail acquisitions, a field in which its record is dismal. After nearly five years, Ward White remains disastrous. *Only Halfords looks as though it will* important in the long term. Otherwise, the group has proved studiously incapable of translating its expertise at Boots the Chemists' to home decorating or do-it-yourself businesses.

Whether plunging deeper into non-prescription drugs is a better use of cash is doubtful. Without the research and development associated with prescription medicines, Boots will have to *rely on other companies to license it* new products. But until Boots has an adequate European distribution network, it will remain an unattractive partner. Management says the biggest gap is Germany. But there is some comfort that Boots has dragged its feet, willing to walk away from over-priced deals. In the end, if the group cannot find an effective use for the money it should hand the cash back to shareholders as it did in November.

Boots' rating is stuck in no-man's land, stranded between the likes of W.H. Smith at one extreme and Marks and Spencer at the other. Until the cash issue is settled, it is likely to remain there.

Additional Lex comment on UK housing, Page 20

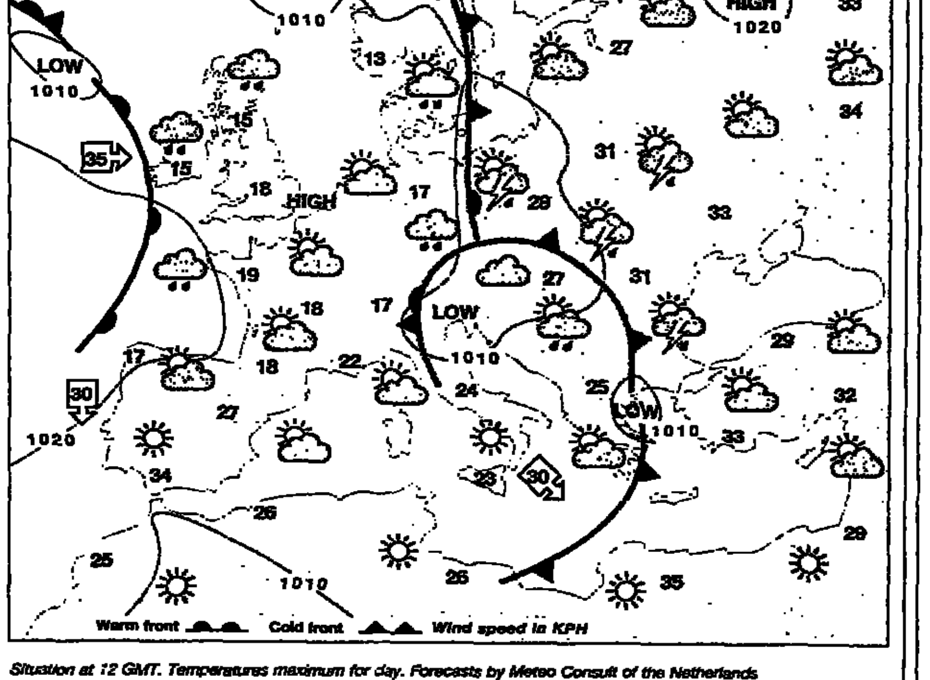
FT WEATHER GUIDE

Europe today

A warm front moving east will cause increasing cloud with afternoon rain in Ireland. Scotland and northern England should be cloudy with scattered rain. Southern England, the Low Countries and northern and central France will be dry *with sunny spells owing to high pressure.* A front will cross eastern Germany and Poland accompanied by cloud and showers or thunder storms. The western *Alps should become clearer but showers* will linger in the east. Russia and the Balkans will be humid with thunder storms, some of which may be heavy in Romania. Spain, *Portugal and southern Italy will be* rather sunny as a ridge of high pressure builds over the western Mediterranean.

Five-day forecast

Rain will spread across the British Isles during the weekend and will reach the Low Countries and France by Sunday. Next week these regions will remain unsettled. Eastern Europe will become much cooler with thunder storms on Saturday. High pressure will build over the Mediterranean bringing continued dry and sunny conditions.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	sun	28	Caracas	fair	31	Faro	sun	27	Madrid	sun	27	Rangoon	shower	33
	Celsius		Belfast	cloudy	15	Cardiff	shower	17	Frankfurt	shower	17	Majorca	sun	24	Reykjavik	fair	11
Abu Dhabi	sun	41	Belgrade	fair	25	Casablanca	sun	24	Geneva	cloudy	20	Malta	sun	23	Rio	fair	25
Accra	shower	33	Berlin	rain	19	Chicago	shower	24	Gibraltar	sun	23	Manchester	cloudy	15	Rome	fair	23
Algiers	sun	24	Bermuda	fair	27	Cologne	fair	18	Glasgow	shower	15	Manila	cloudy	33	S. Frsco	cloudy	19
Amsterdam	fair	17	Bogota	shower	20	Dakar	sun	27	Hamburg	shower	16	Melbourne	fair	15	Seoul	fair	26
Athens	fair	29	Bombay	fair	34	Dallas	fair	33	Helsinki	fair	25	Mexico City	sun	22	Singapore	cloudy	33
Atlanta	shower	28	Brussels	fair	18	Delhi	sun	45	Hong Kong	shower	32	Miami	fair	31	Stockholm	fair	27
B. Aires	fair	19	Budapest	thund	26	Dubai	sun	40	Honolulu	fair	31	Milan	shower	20	Strasbourg	cloudy	18
B.ham	shower	17	C.hagen	shower	18	Dublin	cloudy	16	Istanbul	sun	29	Montreal	rain	25	Sydney	shower	17
Bangkok	shower	34	Cairo	fair	33	Dubrovnik	shower	22	Jakarta	cloudy	32	Moscow	fair	29	Tangier	sun	26
Barcelona	sun	21	Cape Town	sun	19	Edinburgh	shower	15	Jersey	fair	15	Munich	shower	16	Tel Aviv	sun	30
									Karachi	fair	37	Nairobi	shower	25	Tokyo	fair	22
									Kuwait	sun	42	Naples	fair	22	Toronto	rain	26
									L. Angeles	fair	21	Nassau	shower	30	Vancouver	fair	21
									Las Palmas	fair	26	New York	shower	27	Venice	shower	21
									Lima	fair	22	Nice	fair	22	Vienna	rain	23
									Lisbon	sun	28	Nicosia	sun	32	Warsaw	thund	30
									London	cloudy	19	Oslo	fair	22	Washington	shower	27
									Lux.bourg	fair	17	Paris	fair	18	Wellington	shower	9
									Lyon	fair	20	Perth	fair	19	Winnipeg	fair	24
									Madeira	sun	24	Prague	rain	20	Zurich	shower	15

FINANCIAL TIMES

COMPANIES & MARKETS

Friday June 2 1995

IN BRIEF

Crédit Lyonnais to sue SocGen

Crédit Lyonnais, France's largest state-owned bank, yesterday confirmed it was suing Société Générale, one of its leading private-sector rivals, in an escalation of the dispute between the two institutions. Page 16

Barings has little impact on ING
Internationale Nederlanden Groep, the Dutch financial services group which rescued the collapsed Barings Bank of the UK, said its new merchant banking subsidiary produced virtually no operating profit in the first quarter of this year. Page 16

Repola raises FM1.08bn with stake sale
Repola, Finland's largest industrial group, plans to raise up to FM1.08bn ($249.3m) through the sale of at least 25 per cent of its Rauma engineering subsidiary. Page 16

UPS increases European investment
The demise of EU border controls is luring United Parcel Service, a US-based delivery group, to the region. It has yet to make a profit in Europe but is to invest another $1bn in the continent, to add to $1bn spent over the past decade. Page 17

Poor first half at Australian insurer
National Mutual, the Australian life insurer in which France's Axa group wants to acquire a 51 per cent stake, yesterday reported a net A$30.7m (US$22.1m) loss for the half year to end-March, compared with a A$20.6m profit a year earlier. Page 19

MAS cautious despite profits rise
Malaysia Airlines (MAS) posted mixed annual results. Group pre-tax profit for the year to March 31 1995 was M$148m (US$59m) compared with a pre-tax profit of M$16m last year. However, the group's airline operations failed to make money. Page 19

Fiat tractor unit returns to black
New Holland, Fiat's wholly-owned tractors and combine harvesters subsidiary, reported net earnings of $356m last year, its first profit after three years of restructuring when it accumulated losses of about $1bn. Page 18

Mixed quarter for Canadian banks
Canadian banks posted mixed results in the second quarter. Royal Bank of Canada, the country's biggest financial institution, lifted earnings 11 per cent while Canadian Imperial Bank of Commerce blamed weak capital markets and an ambitious investment banking expansion for a 12 per cent slide. Page 18

Board shake-up at Allied Domecq
Mr David Jarvis, chief executive of Allied Domecq's wines and spirits division and a main board director, was yesterday made redundant as the drinks and retailing group restructured its senior management. Two other senior managers were appointed to the board. Page 20

SG Warburg agrees bank sale
The sale of S.G. Warburg's investment banking businesses to Swiss Bank Corporation was agreed at a subdued 15-minute shareholders meeting yesterday in spite of strong criticism of the UK bank's management from a former board director. Page 20

Companies in this issue

Market Statistics

Chief price changes yesterday

New York and Toronto prices at 12.30.

Kmart launches second wave of store closures

By Richard Tomkins in New York

Kmart, the struggling US discount store group, yesterday announced its second big store closing programme in less than nine months.

It plans to close another 72 stores which did not meet the company's sales, profit and return on investment requirements.

As a result, 5,800 more jobs would go, from store managers to part-time employees.

Kmart said the stores would close between the beginning of August and the end of the year.

The costs involved would come out of the $1.35bn store restructuring provision recorded in the fourth quarter of 1993.

The latest retrenchment comes on top of the cuts announced last September when Kmart said it was closing 110 discount stores with the loss of 6,000 jobs.

It also announced plans to cut its management workforce by 10 per cent.

The latest plans of store closures involve the loss of almost the same number of jobs over a smaller number of stores, indicating that the cuts are beginning to fall on ever-larger units as Kmart seeks to shrink itself to a profitable core.

Mr Donald Keeble, executive vice-president of store operations, said the additional stores had been identified for closure as Kmart focused on improving its core discount store business.

The company's shares edged up $¼ to $12⅞ in early trading.

Kmart has been struggling for years to counter a loss of business to more successful rivals – notably Wal-Mart Stores, the world's largest retailer.

Last month it produced its ninth consecutive quarter of deteriorating results when it reported a net loss of $28m for its first quarter to April compared with net profits of $18m a year earlier.

The company has also failed so far to recruit a replacement for Mr Joseph Antonini, its former chief executive, who resigned under pressure earlier in the year. And last week it announced it would have to take a charge of $185m in its second quarter to reflect a writedown on the sale of its Borders bookstore subsidiary.

Kmart's strategy over the past few years has been to close smaller stores and replace them with larger units, which have proved to be more profitable.

Hundreds of stores have been replaced in this way. But in recent months, the store closures have ceased to be accompanied by announcements of new store openings.

State will reduce stake in Usinor to less than 10%

By John Ridding in Paris

The French government is expected to reduce its stake in Usinor Sacilor, the steelmaker, to below 10 per cent as part of its privatisation, while a group of core investors will hold about 15 per cent of its shares.

Usinor said yesterday the core investors, which will form a *noyau dur*, is expected to include French and international industrial and financial groups. Possible candidates include Lucchini, the Italian steel concern, Electricité de France, and Air Liquide, the French industrial gases company.

Mr Robert Hudry, Usinor finance director, said a tender offer for core shareholders would be launched shortly, and that a decision on the composition of the group should be known by June 20.

The price of shares in the privatisation issue is scheduled to be announced on June 26, although a guideline range is expected a fortnight earlier. The operation is scheduled to be completed by July 4.

The privatisation, the first by the new conservative government which took office last month, is expected to value Usinor at about FFr20bn ($4bn). The government holds 80 per cent of the shares in the company, which is the largest steel producer in Europe.

Most of the shares left after allocations for the state and the core investors are expected to be allocated to institutional investors.

The public is likely to be offered between 15 per cent and 18 per cent, with about 4 or 5 per cent being offered to employees of the steel group.

The government has announced that the privatisation will be accompanied by a FFr5bn capital increase aimed at reducing Usinor's debt, which stands at FFr17.4bn.

Mr Alain Madelin, France's economy minister, has also indicated the government would be prepared to lend support to the steel group should it be faced with another sharp downturn in the international market.

In spite of such reassurances, and pledges by Usinor that there is no need for further substantial restructuring, trade unions remain opposed to the sale.

The Communist-led Confédération Générale du Travail yesterday called for a protest against privatisation on June 14.

"A national asset is being thrown into the private sector with consequences for its workers," the CGT said yesterday.

Yen forces Sega to shift all production

By Paul Taylor in London

Sega Enterprises, the Japanese electronic games maker, is to shift all production of its games machines to overseas factories before the end of its financial year because of the strength of the yen.

Sega already produces almost all its game machines for the overseas market, and 60 per cent of those for the home Japanese market, in Taiwan, China, Thailand, Indonesia and Malaysia.

Mr Malcolm Miller, chief executive of Sega Europe, confirmed yesterday that the group would be moving all production out of Japan "to counteract the strength of the yen".

The offshore move before the end of March will help Sega to control costs in its current financial year.

The decision to shift production was foreshadowed two weeks ago when Sega announced a 41 per cent fall in full-year recurring profits – before extraordinary items and tax – to Y12.8bn ($151m) in the year to March.

The decline reflected the strength of the yen and the downturn in the video games market as consumers wait for the new generation of machines.

When Sega announced its results it forecast a recovery this year based on the shift to overseas production and the international launch of Saturn, its 32-bit system. As a result, it said it hoped to raise sales this year to Y385bn and recurring profits to Y26bn.

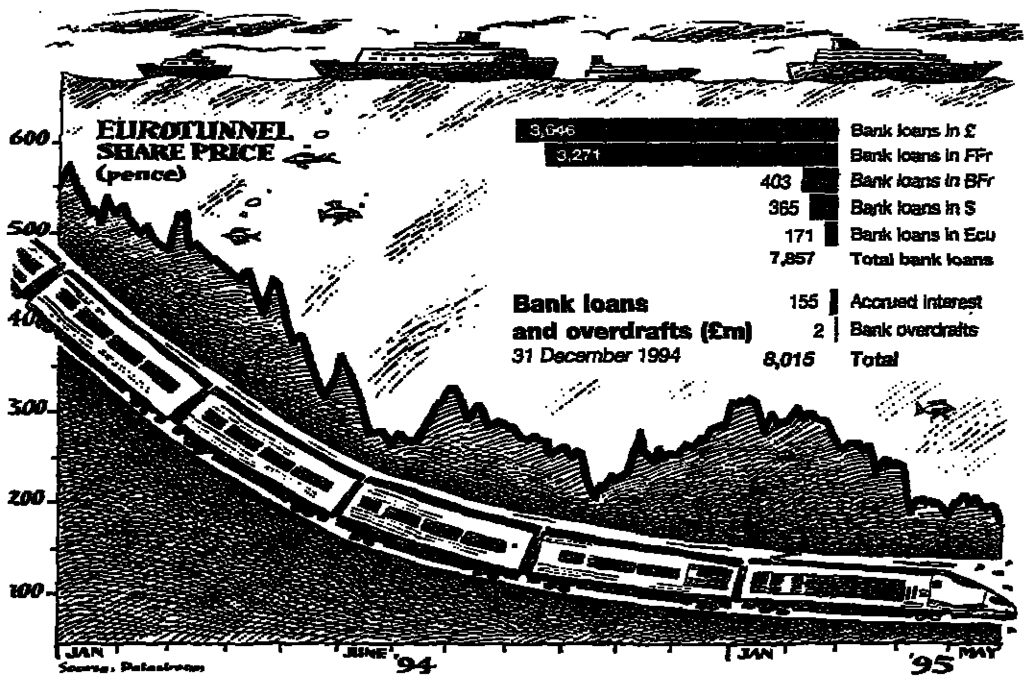
Sega said yesterday it would cut the price of Saturn by Y10,000 to Y34,800 in Japan from mid-June. Sega is not considering cutting the price in the US, where the machine was launched last month – four months ahead of schedule. Saturn is due to be launched in Europe this year.

The price cut is further evidence of the fierce competition developing in the industry as manufacturers fight for market share in the emerging market for the new generation of games machines.

Sega and Nintendo dominated the market for the old-style cartridge games machines. However, they face competition from new entrants such as Sony in the market for the next generation of machines.

John Gapper reports on Eurotunnel's efforts for debt refinancing

Banks see light at the end of tunnel after a long haul



Sir Alastair Morton, the co-chairman of Eurotunnel, is fond of recalling an encounter with the company's banking syndicate a few years ago. After bankers had complained about the risks and uncertainties of the project, Sir Alastair suggested they give up restrictions on the repayment of £7.8bn ($12.2bn) debt.

"You must be joking," one banker replied, "Once the tunnel opens, this is the best piece of business on our books." Even now, a decade after the start of the project, with Eurotunnel at least two years away from breaking even, its 225 banks are more sanguine than an outsider might anticipate.

This autumn, Eurotunnel will enter another marathon of talks with its bankers in an effort to refinance itself.

On the face of it, it has a poor negotiating hand, as it requires further waivers even to win agreement for the second tranche of a £693m facility contained in last year's refinancing.

Predictably, Sir Alastair disagrees, dismissing out of hand the possibility that his long-suffering banks will simply pull the plug and put it in receivership.

"How realistic is it that a pretty incoherent group of 225 banks is going to put its clients under at the first hurdle?" he asks.

Sir Alastair and his co-chairman Mr Patrick Ponsolle will be pressing for a reduction in the interest rate paid on the debt from the current average of about 1.6 percentage points over the cost of funds. Last year's senior debt is the most expensive of all, at a 2.5 percentage point margin.

Less predictably, even the group's bankers are starting to see light at the end of the tunnel. As Sir Alastair points out, banks are virtually alone in having made money on the project. Now that trains are running, even in a patchy way, the risk of default on their debt is also low.

Perhaps this accounts for positive enthusiasm among some of the project's bankers about its long-term prospects, despite a dire short-term predicament. "Sooner or later, this is going to be a big success, and most big banks in the world will want to have a relationship with it," says one banker.

Nor are banks too concerned yet about the fact that success will come a lot later than anticipated – if at all.

Although it remains some way from capturing the market share that was predicted in its rights issue prospectus last May, bankers argue that they can afford to wait.

They key to this confidence is the franchise, which extends until the year 2052.

"The perception is that Eurotunnel is now a maturity risk, not a credit risk. It has taken longer than it should, but this is a first-class transport system that is going to carry on earning money," says a banker.

Given that most banks think they will eventually get their money back, Eurotunnel debt has obvious attractions. Its yield of 1.6 per cent is eight times the average margin on lending to an investment grade company at the moment. Many banks are eager to lend to large creditworthy companies.

So the banks have reason to keep Eurotunnel going. The issue is on what terms they will do so. Its cashflow covers operating costs and marginal capital expenditure, and the shortfall is due to a £700m annual interest bill.

Sir Alastair says it makes no sense to borrow more to pay it.

One obvious alternative is a further rights issue, although with shares closing yesterday 1p higher at 183p, this would imply large dilution of its retail shareholders to raise sufficient sums. The company has ruled this out this year, although one banker comments that "companies always say that".

Another classic solution would be forgiveness of debt in a debt for equity swap.

However, bankers are not keen on such a solution, arguing that they would simply lose their priority rights to the company's cashflow.

"It is extremely premature to talk about anything like a debt swap," says one.

'How realistic is it that a pretty incoherent group of banks will put its client under at the first hurdle?'

Sir Alistair Morton, Eurotunnel co-chairman

If these two avenues are ruled out, Eurotunnel will have to find other sources of cash.

Sir Alastair points out that it could yet gain £2.3bn from a claim against the tunnel train operators, which it says have set fare structures wrongly. This claim is being considered by arbitrators.

But this is not a reliable source of income. Neither are warrants issued in 1993 which have a conversion price of 310p per share, and are exercisable at the end of October. Even Sir Alastair concedes that Eurotunnel has only a "racing chance" of gaining £150m from full conversion.

The likelihood is that Eurotunnel will have to refinance its debt. Some bankers suggest that as the risks have reduced, it might find a willing backer in a long-term credit bank or one of its leading banks, which would be prepared to offer a loan at a lower yield to allow it to pre-pay debt.

But banks would require inducements to lend on such terms. One possibility is a convertible loan issue, allowing banks to convert to equity in five years' time. Eurotunnel would seek a call option in such a loan to allow it to prevent the dilution of shareholders if its cashflows improve in that time.

The golden scenario for Eurotunnel would be to keep pushing back conversion rights until its cashflows were strong enough to take out a large tranche of bank debt in bond markets. But even the most optimistic of its supporters concede that this is unlikely to occur before the turn of the century.

"What good does it do anyone to increase our burden? Why don't we just play it forward together?" asks Sir Alastair.

Yet even his legendary negotiating skills will be required in full to keep Eurotunnel going until the still-distant moment when it turns into the loan that every bank wants.

Siebe rises after record demand

By Tim Burt in London

Siebe, the UK controls group, yesterday announced a sharp increase in profits amid record demand for industrial controls and temperature appliances and an improved performance by Foxboro, its US subsidiary.

The group, which claims to be one of the world's top three controls manufacturers, saw pre-tax profits jump 27 per cent to £275.1m ($432m) in the year to April 1 as sales reached £2.15bn, against £1.86bn.

Mr Allen Yurko, chief executive, pledged to improve efficiency and production further by increasing capital spending by 10 per cent to £165m. The investment should cut lead times on Siebe's order backlog, which climbed to a high of £642.2m.

Those orders were dominated by a 24 per cent increase in profits to £127m from £101.8m in the control systems division, the company's largest, on sales of £803.7m compared with £647.2m.

Its improved performance was fuelled by Foxboro which reported margins of 20 per cent and lifted its share of the world's market for intelligent automation systems to 12 per cent.

Although Siebe detected a softening in the US economy, slower growth in North America was offset by buoyant sales elsewhere, particularly in the Middle East and Pacific Rim.

The group, which spent more than £200m on acquisitions last year, hinted at further purchases.

Mr Yurko predicted Siebe would improve its performance following a £5m restructuring, involving 500 job losses.

Earnings per share rose to 37.5p from 31.4p. A final dividend of 8.07p lifted the total for the year to 12.1p from 11p.

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French bank feud goes to court

By Andrew Jack in Paris

Crédit Lyonnais, France's largest state-owned bank, yesterday confirmed it is suing Société Générale, one of its leading private-sector rivals, in an escalation of the bitter dispute between the two.

It claims that Société Générale indulged in "unfair competition" earlier this year by writing to Crédit Lyonnais clients using "misleading advertising" in an effort to persuade them to switch banks.

The law suit also raises questions about the way in which banks may be obtaining and using personal information on the clients of their competitors, a practice governed by strict privacy regulations in France.

Crédit Lyonnais is seeking symbolic damages of FFr1 against its rival in the Paris commercial court, as well as FFr50,000 ($10,059) in legal costs in a case due to be heard on June 27.

It yesterday described Société Générale's action as "unacceptable", and said it had been forced to react.

The bank claims that letters sent to its customers around the country during March unfairly highlighted "difficulties" at Crédit Lyonnais, and made statements about its services which were untrue.

It alleged that some of the addresses used to send the letters appeared to have been obtained from information contained in banking documents, such as cheque books, rather than from publicly-available sources, in an apparent breach of French law.

The Commissions Nationale de l'Informatique et des Libertés, a watchdog which scrutinises the use of personal information held on computer, confirmed yesterday it had received complaints last week from Crédit Lyonnais customers. It said it was launching an inquiry.

Société Générale confirmed that marketing letters had been sent out to clients of other banks, but said the operation was conducted through its local agencies without central co-ordination, and that Crédit Lyonnais had not been specifically targeted.

The bank stressed that the tactic did not go beyond standards of "healthy competition", and said it found Crédit Lyonnais' complaint ironic in light of its request for a FFr135bn government-backed rescue package to deal with losses incurred by risks taken in the past.

Société Générale, along with Banque Nationale de Paris, another leading private sector bank, publicly criticised as "anti-competitive" the rescue package for Crédit Lyonnais agreed earlier this year with the French state. The package is being scrutinised by the European Commission.

Mr Marc Viénot, chairman of Société Générale, has since threatened to take Crédit Lyonnais to the European Court of Justice if his discussions with competition officials in Brussels fail to force modifications the rescue plan.

Barings has little impact on results at ING

By David Brown in Amsterdam

Internationale Nederlanden Groep, the Dutch financial services group which rescued the collapsed Barings Bank of the UK, said its new merchant banking subsidiary produced virtually no operating profit in the first quarter of this year.

ING reiterated its forecast that Barings would have a neutral effect on group profits this year, but it expects revenue to start coming in 1996. ING consolidated Barings' operations into the balance sheet at the end of March.

The Dutch group's own net profit for the first three months ended March advanced by 10.6 per cent to Fl 520m ($328.5m) from Fl 470m, at the lower end of analysts' expectations. Management is forecasting that full-year net earnings will "at least equal" the Fl 2.3bn in 1994.

Pre-tax earnings were ahead 18.5 per cent to Fl 723m from Fl 610m.

The group's life insurance operations accounted for Fl 245m of the pre-tax result, up 26 per cent, and were particularly strong in the Netherlands and in Hungary.

Earnings in the non-life operation pushed back into the black, climbing Fl 75m to Fl 64m after a lull in liabilities for natural catastrophes. Earnings in Australia slipped, however, and the full-year increase in non-life business will be less pronounced, the group cautioned.

The insurance operation as a whole reported a net profit of Fl 482m during the period, up 36 per cent. The bulk of earnings in both insurance and banking are generated in the Netherlands.

For ING's banking arm, the quarter's results were less stirring. Earnings slipped by about 5 per cent to Fl 255m, a figure which has been adjusted for new accounting procedures.

Losses in financial trading were sharply reduced, to Fl 42m from Fl 234m during the same three-month period a year earlier. Interest rate margins narrowed considerably.

Repola to float stake in engineering subsidiary

By Christopher Brown-Humes in Stockholm

Repola, Finland's largest industrial group, plans to raise up to FM1.08bn ($249.3m) through the sale of at least 25 per cent of its Rauma engineering subsidiary to domestic and international investors.

The aim is to raise Rauma's profile, and enhance its value, as the unit has traditionally been overshadowed by Repola's pulp and paper operations, centred on United Paper Mills.

The sale coincides with a strong improvement in Rauma's performance and a rising order book, helped by restructuring and economic recovery.

A total of 13.5m shares will be sold, at between FM70 and FM80 each, valuing Rauma at as much as FM4.3bn. Repola will sell 10.5m shares (and a further 2m if demand is strong), while 3m new shares will be issued by Rauma. Proceeds will be used to reduce debt. Listings will be sought for Rauma on the Helsinki and New York stock exchanges.

Rauma's four divisions – logging machines, fibre processing, industrial valves and rock crushing – enjoy leading market positions and have benefited from better demand and restructuring.

Last year, underlying operating profits at Rauma jumped 153 per cent to FM526m, on sales of FM8.3bn, as the group's order backlog swelled to FM4.34bn from FM3.03bn a year earlier. More than 60 per cent of sales derive from forestry equipment, where demand has risen because of the strong upturn in the pulp and paper cycle.

Repola first flagged plans to float part of Rauma last December but has had to wait for sentiment to improve in the Helsinki stock market. Global co-ordinator of the issue is S. G. Warburg Securities.

Shares will be offered in three regional tranches covering the Nordic region, North America and the rest of the world. There will be a Finnish retail offer.

Repola said profits for January to April would exceed FM1bn, after FM657m in the same 1994 period. Rauma posted operating profits of FM161m on sales of FM2.8bn in the first four months.

Oryx seals sale of UK holding

By Robert Corzine in London

Oryx Energy, the debt-laden Dallas-based oil explorer, has concluded the largest asset sale this year in the UK sector of the North Sea. It sold a 15.5 per cent stake in the Alba oil field to Union Texas Petroleum for $270m, which represents about $5.10 a barrel.

"This transaction is a significant step in the achievement of our year-end debt target of $1.3bn," said Mr Robert Keiser, chairman and chief executive. Oryx's debt peaked at $3.2bn in 1990.

The sale of Oryx's Alba holding comes just five months after it announced a new strategy to stabilise its financial position. Once the Alba sale is formally concluded, the company will be able to meet its target to reduce debt this year by $400m.

However, it said it would continue to be "opportunistic" about additional deals, and another $70m-$150m in assets may eventually be sold. But there are no specific plans to sell any of its other North Sea assets, says Ms Patricia Horsfall, UK managing director.

The Alba oil field lies above the Britannia natural gas reservoir, in which Union Texas also has a stake.

Renault VI and MAN plan link

By John Ridding in Paris

Renault VI, the trucks and buses arm of the French state-owned motor group, has signed a memorandum of understanding with MAN of Germany to study the joint development and manufacture of components.

The move represents a potentially significant step in the French group's strategy of finding partners for specific co-operation projects. It has sought to extend this strategy since the collapse of merger plans with Volvo of Sweden at the end of 1993.

The move also reflects the broader move by motor manufacturers to form partnerships in an attempt to reduce costs and achieve economies of scale. Renault said the two companies had agreed to conclude their studies in the near future.

Under the terms of the agreement, Renault and MAN will initially focus their studies on co-operation in medium-sized engines, mechanical bus parts, and axles for trucks.

Concerning the engines, the groups will examine the development of diesel engines of between 100 and 280 horsepower. According to Renault VI, the aim would be to examine the development of engines for satisfying new European and US emission regulations.

In the area of components, the French and German manufacturers will assess the scope for standardising axles and key mechanical parts. As with motors, the aim is to cut development and production costs.

Paris bourse reports 29% slide in profits

By Andrew Jack

The Paris bourse yesterday announced a 29 per cent slide in net profits for 1994 to FFr147.8m ($29.8m), in spite of a sharp rise in transactions on the stock market last year.

The Société des Bourses Françaises saw operating profit more than double to FFr91.9m from FFr39.4m. The FFr60.1m decline in net profit was the result of exceptional gains in 1993. Turnover rose 3.1 per cent to FFr696.8m, while operating costs were almost stable at FFr510.5m.

Market commissions rose 4.3 per cent to FFr385.4m and share transactions advanced 19 per cent to 22.8m in the year. The bourse said the modest increase reflected its policy of reducing the transaction costs for market participants.

A 43 per cent increase in the dividend to FFr10 per share was approved yesterday.

The SBF last year undertook a number of important structural initiatives. These include the development of the "new market", designed to offer equity development funding for small, fast-growing businesses based in France and across other parts of Europe.

Nestlé still reluctant to list on NYSE

The disadvantages for Nestlé of a listing on the New York Stock Exchange outweigh the advantages, Mr Helmut Maucher, chairman and chief executive said yesterday, AP-DJ reports from Lausanne.

Speaking at a shareholders meeting, Mr Maucher made clear that accounting standards and transparency levels required for a New York listing were not among the reasons preventing the Swiss foods group from seeking a listing there. He said Nestlé's financial position meant there was no need to raise funds through a listing on the foreign board.

Sharp rise at Saga Petroleum

By Karen Fossli in Oslo

Saga Petroleum, Norway's largest independent oil company, has posted a sharp rise in operating profits for the first four months, to NKr708m ($112.8m) from NKr502m. It was helped by an increase in crude oil sales and higher prices.

The operating result was slightly better than local analysts had forecast, but net profits, mostly unchanged at NKr241m from NKr242m, were in line with expectations.

Saga sold crude at an average price of NKr111 a barrel in the first four months of this year, against NKr105 in the same period last year. Total production rose to 15.2m barrels of oil equivalent from 14.6m.

Group sales rose to NKr2.23bn from NKr1.97bn, as operating costs climbed to NKr1.52bn from NKr1.47bn. Saga had NKr50m in net financial charges, compared with income of NKr157m in the same period last year.

The company, which was listed on the New York Stock Exchange in April, said it had made progress on several development projects. These included the Vigdis oil field, which is due to come on stream in the summer of 1997, and the eastern part of the Tordis field, which is also due to start production in 1997.

Also, production from the Varg field will start in either 1997 or 1998, Saga said.

Production at Tordis picked up from 74,000 barrels a day to 78,000 b/d in April. Pilot production from the Mabruk field in Libya began in February at a rate of 2,500 b/d.

Exploration activity was higher, with Saga participating in eight wells with a further seven scheduled.

Portugal Telecom offering priced

By Peter Wise in Lisbon

Portugal yesterday set the price for its global offering of 28.3 per cent of Portugal Telecom at Es2,800 a share. The heavily oversubscribed operation, the country's first move into the international equity market, will raise Es147bn ($987.5m).

Dealers had hoped for a price closer to Es2,700, to guarantee strong demand for the shares when trading begins in secondary markets in Lisbon, London and New York today. Shares were to be allocated at a special session of the Lisbon stock exchange last night.

Demand in the Portuguese retail market was more than four times higher than the 27m shares being offered, with applications from 70,000 individuals.

As a result, the government took up an option to re-allocate 1.5m shares to the retail tranche from the 23m being sold to institutional investors. Demand for the institutional offer in Portugal, the UK and the US was also strong.

Portugal Telecom also acquired 94 per cent of Companhia Portuguesa de Rádio Marconi, Portugal's intercontinental telecoms group, during the sale. It exchanged shares with private shareholders who owned 49.6 per cent of Marconi; it plans to bid for 100 per cent.

● As part of a second effort to tap international markets, the government yesterday set a price range of Es920 to Es1,210 a share for a global offer of 40 per cent of Portucel-Industrial, a eucalyptus pulp producer.

INTERNATIONAL COMPANIES AND FINANCE

UPS attracted by falling borders

United Parcel Service is to invest $1bn in Europe, reports Simon Kuper

Three years ago Federal Express halted its internal European operations. United Parcel Service, another US-based delivery company, has yet to make a profit in Europe. Yet UPS has just decided to invest another $1bn in the continent, to add to the $1bn spent over the last decade.

The lure is the demise of border controls in the European Union – as it was for FedEx before 1992, when the recession spiked the company's plans. Mr Ed Reitman, who yesterday became the first president of UPS-Europe, says the falling borders are taking away "the tremendous obstacles involved in customs clearance, and the paperwork that went with that".

UPS, an unquoted company, has spent the last few years raising its profile in Europe. Mr Reitman, who has been with UPS for more than 25 years, helped negotiate its purchases of 16 European companies between 1987 and 1992, giving it a presence in all main continental markets.

"It's been a Herculean task," he says. So far UPS has made a profit in Europe only in the express market – the market for deliveries within guaranteed times, mostly by air. "Where we've had more difficulty," explains Mr Reitman, "is in the ground operations, because we have covered the length and breadth of every country, and we have not covered our costs."

> 'We hope to be profitable in two or three years. But I have no directive, because we're here for the long haul'

For the moment UPS depends heavily on its home base in the US. It carried 172m packages in Europe last year, for revenues of $1.4bn, just 7 per cent of total turnover.

But the company claims its international express volume grew 36.3 per cent in the first quarter of 1995, compared with the same period in 1994. Volumes on its intra-European road based service doubled over the same period.

Mr Reitman says UPS will be "very" patient with Europe. "We hope we will be profitable in two or three years. But I do not have a directive, because we're here for the long haul."

Over the next five years, UPS expects to spend $300m on ground vehicles, $300m on buildings and facilities, $200m on information technology and $300m on aircraft support. Mr Reitman says UPS will probably continue to use existing suppliers and manufacturers. These include Boeing, Rolls Royce, Mercedes, the Flensburg Fahrzeugbau Gesellschaft (which makes vehicle body parts) and local companies.

Part two of the plan is to make "double-digit per cent cost savings". Mr Reitman hopes to achieve this through the benefits of higher volumes, and improved efficiency. "Right now we have excess capacity, so I don't see a tremendous increase in the number of people we would employ," he says. UPS has more than 26,000 staff in Europe.

Mr Reitman's main task, as he sees it, is to offer a service that is the same throughout Europe, so that multinational companies using UPS know what to expect. "A shipper in the UK will have the same service available to him as a shipper in Italy," Mr Reitman says.

So does he have any doubts about the European market? "We're still very concerned about unfair competition." He claims that the Bundespost, the German postal service, has received DM4.1bn in government subsidies.

UPS has complained to Bonn and Brussels. "Germany is not the only country giving subsidies, but it's the worst for the time being," Mr Reitman says.

So far at least, UPS has not been deterred by its foreign travails. Last year it claimed its international operations had finally broken even.

Chairman and chief executive officer Mr Kent "Oz" Nelson said at the time: "Outside the US we projected we would lose $5bn over five years, and we have. But we are dead serious about being a worldwide letter and package deliverer."

See Lex

NEWS DIGEST

Bank Austria sees recovery after poor first quarter

Bank Austria, the country's largest bank, said it expected pre-tax profits in 1995 to be broadly similar to the Sch4.8bn ($483m) earned in 1994, writes Ian Rodger in Zurich.

"We hope and expect that we can reach our 1994 profit level if there is no downturn in the environment," Mr Gerhard Randa, chief executive, said at the bank's annual meeting in Vienna.

Mr Randa said the first quarter was disappointing, but April and May were considerably better, so that operating profits in the first five months reached Sch1.6bn, about the same level as in 1994.

He said the bank intended to raise new capital next year. The Austrian government, which holds a 19 per cent stake, would not take part. It is trying to sell its shares, but Mr Randa said he knew of no one interested in buying them.

He also expressed confidence that the government and parliament would soon approve a measure to give the bank a 10-year transition period to adapt to European Union accounting consolidation requirements.

The issue is sensitive because of a large loan made by the bank to its controlling shareholder last year to finance a partial takeover of GiroCredit, Austria's third largest bank.

Bank Hapoalim starts year with 34% gain

Bank Hapoalim, Israel's largest bank, said its first-quarter net profit rose 34 per cent to $65m from $49m a year ago, Reuter reports from Tel Aviv.

Net return on equity was 14.1 per cent compared with 11.4 per cent a year earlier.

The provision for doubtful debts was $87m compared with $80m last year, influenced by the decline in share prices on the stock market and the agricultural sector.

The improved profitability resulted from a 44 per cent increase in financing profit before provision for doubtful debts of $254m, compared with $176m last year.

DCM offshoot in tyre cord acquisition

Shriram Fibres (SRF), a diversified manufacturing and trading company of the Delhi-based DCM group, yesterday announced that it had acquired the nylon tyre cord division of CEAT, a leading Indian tyre manufacturer belonging to the R.P. Goenka (RPG) industrial group, at a cost of more than Rs3.25bn ($103.4m), writes Shiraz Sidhva in New Delhi.

Mr Arun Bharat Ram, vice-chairman and managing director of SRF, said his company would acquire CEAT's nylon cord plant at Malanpur, near Gwalior in Madhya Pradesh, by September.

The new acquisition, he said, would help SRF strengthen its domestic market share of more than 40 per cent, and allow the company to become a "meaningful player" on the international market.

India's total production capacity of nylon tyre cord fabric is 55,000 tonnes a year, of which SRF manufactures 11,000 tonnes.

Saipem, Bouygues in offshore platforms move

Saipem of Italy and Bouygues Offshore of France are to form a new company to supply offshore platforms for underwater pipelines to the oil industry, writes Andrew Hill in Milan.

Half of Saibos, the new company, will be owned by Saipem, which is the plant engineering arm of Eni, Italy's state-owned energy and chemicals group, and half by Bouygues Offshore.

In a statement, the companies said that the new group would be better able to respond to the demands of the oil industry in areas such as the African coast, excluding north Africa, and the Atlantic coast of South America.

Saibos will acquire one of Saipem's specialist ships and a support vessel from Bouygues Offshore.

C&W's Italian offshoot seeks cellular licence

The Italian subsidiary of Cable & Wireless, the UK-based telecommunications group, is to ask Italy's telecoms minister to open the bidding for a third cellular telephone licence, writes Andrew Hill.

Mr Stefano Borghi, the new managing director of C&W in Italy, wants Mr Agostino Gambino to invite bids for a personal communications network (PCN), similar to the One-To-One system which the group already operates in the UK. France and Germany also have PCNs.

PCNs are a cheaper version of established digital mobile telephone networks. The technology is based on a higher frequency than existing services, and is aimed more at the mass market.

Mr Borghi said the group intended to use its experience in the field to launch a strong bid for a third Italian licence, possibly at the head of a consortium.

So far, C&W has sought mainly business and professional clients in the Italian market.

Italy has been slower to open its mobile communications sector to competition than some other European countries.

Omnitel Pronto Italia, owned by an international consortium, won the licence for Italy's second GSM network last year and should launch its service later this year.

Italmobiliare bounces back to black

Italmobiliare, the main holding company of Italian industrialist Mr Giampiero Pesenti, saw consolidated 1994 results swing to a profit of L12bn ($7.3m) from a loss of L26.5bn in 1993, Reuter reports from Milan.

Revenues rose slightly to L5,539bn from L5,509bn, and operating profits increased to L360.5bn from L174bn, the company said.

Last year, Italmobiliare changed its fiscal year to one that ends on the calendar year from a March-ending year. The years are, therefore, not strictly comparable since the 1993 year represents only nine months of results.

The company added that results in the first quarter of 1995 were better than the comparable period of 1994, and it expects 1995 profits to be higher than in 1994.

October debut planned for Foxtel

Foxtel, the Australian pay-TV joint venture between Mr Rupert Murdoch's News Corporation and Telstra, the large government-owned telecommunications group, said yesterday that it planned to start broadcasting in October, writes Nikki Tait in Sydney. By that stage, the cable infrastructure, which Telstra is laying, would be available to some 700,000 homes, according to Mr Mark Booth, Foxtel's chief executive.

Pay-TV began to become available in Australia this year, when Australis, the satellite broadcaster, started operations, but the numbers receiving programming are very small.

Air France/JAL deal

Air France said it had extended its co-operation agreement with Japan Airlines to include, from November 1, exchanging their frequent flyer programmes, Reuter reports from Paris. The two carriers hope to improve their connections at Tokyo and Paris airports.

Ciba to end relationship with Glaxo's Affymax unit

By Daniel Green in London

Ciba, the Swiss pharmaceuticals company, is set to end its relationship with Affymax, the Californian biotechnology company which was bought by Glaxo Wellcome of the UK in January for $533m.

Affymax, like many biotechnology companies, has a series of partnerships with large pharmaceuticals companies. The fate of these arrangements has been unclear since Glaxo's acquisition of the company.

Mr Alex Krauer, Ciba's chairman and chief executive, said he thought it unlikely the four-year relationship with Affymax would continue beyond the current contract, which expires next month.

He said Ciba's lawyers were working on untangling the relationship, in which Ciba used Affymax's technologies to test possible research approaches.

Affymax had similar relationships with Johnson & Johnson of the US; Marion Merrell Dow, the US drugs company bought by Hoechst of Germany; American Home Products, which a year ago entered into a five-year contract worth a minimum of $57m; and Alza, another Californian company.

Although these relationships may be curtailed because of the acquisition of Affymax, AHP said yesterday the relationship with the Glaxo subsidiary should "prosper".

The research part of the Johnson & Johnson relationship ended in April. The MMD relationship continues until 1997.

France Telecom turns in profit of FFr9.9bn

France Telecom, the country's sole provider of basic telephone services, made a consolidated net group profit of FFr9.9bn ($2.1bn) in 1994 on revenue of FFr142.6bn, AP-DJ reports from Paris.

It is the first time the state-owned utility has published consolidated accounts. Previously, France Telecom published separately the earnings of its parent company and those of Cogecom, a holding company that controls its 87 subsidiaries.

France Telecom said its 1994 consolidated revenue puts it in fourth place among the world's telecommunications operators. Revenue from telephone operations accounted for 74 per cent of the 1994 total, up 1 per cent from 1993.

The utility said its financial debt amounted to FFr96.6bn at the end of 1994, accounting for 71 per cent of the shareholders' equity before distribution of profits.

RBC climbs 11% after drop in loan loss provisions

By Bernard Simon in Toronto

Royal Bank of Canada, the country's biggest financial institution, lifted second-quarter earnings by 11 per cent, aided by a sharp drop in loan loss provisions and higher income from some fee-based services.

The bank lowered its 1995 loan-loss estimate as a result of a 20 per cent reduction in the non-performing loan portfolio, half of it caused by an improved commercial property book. It also held out hopes of a dividend increase later this year.

Earnings climbed to C$304m (US$223m), or 83 cents a share, in the three months to April 30, from C$273m, or 74 cents, a year earlier. Return on equity improved to 16.3 per cent from 16.1 per cent, and return on assets widened to 0.73 per cent from 0.67 per cent.

Assets stood at C$175.5bn on April 30. Provisions for loan losses fell to C$140m from C$205m. The bank now estimates write-downs for the year at C$600m, down from its previous estimate of C$640m.

Mr John Cleghorn, chairman, said the bank was taking a more conservative approach towards lending. This year's credit losses are expected to reach the target of 0.5 per cent of loans and bankers' acceptances, but Mr Cleghorn said a more ambitious figure may be set for future years.

Fee income fell to C$626m from C$666m. A slump in capital market business was only partially made up by higher revenues from foreign exchange, credit cards and risk management.

RBC Dominion Securities, the bank's investment banking arm, plans to expand its derivatives business, which is presently confined to Canadian equities, into a full-service, global operation in the next two years.

Besides a healthier loan portfolio and further diversification, Mr Cleghorn said the bank's priority was to lower costs. It aims to reduce the ratio of non-interest expenses to total revenues to 58 per cent within the next three years, from 62.5 per cent in the latest quarter.

CIBC earnings slide 12% in second quarter

By Bernard Simon

Canadian Imperial Bank of Commerce blamed weak capital markets and the costs of an ambitious investment banking expansion for a 12 per cent slide in second-quarter earnings.

The investment banking setback and tighter lending margins more than offset a 23 per cent drop in loan-loss provisions, making CIBC the only one of Canada's big six banks to report lower second-quarter earnings.

Net earnings were C$192m (US$137m), or 76 cents a share, in the three months to April 30, down from C$217m, or 86 cents, a year earlier. Return on equity fell to 9.8 per cent from 11.9 per cent, while return on assets narrowed to 0.51 per cent from 0.61 per cent.

The non-performing loan portfolio grew to C$1.53bn on April 30 from C$1.4bn three months earlier, which reflected the collapse of Bramalea, a large Toronto-based property developer.

CIBC is in the process of an ambitious project to become a global force in specialised financial products, such as derivatives and high-yield debt. Costs related to this expansion made up the bulk of a C$47m increase in expenses.

Fee income slumped 13 per cent to C$476m, due mainly to the sharp contraction in underwriting business which has hit many North American investment banks. Assets rose 7 per cent to C$157.4bn.

AlliedSignal buys east German nylon group

By Tony Jackson in New York

AlliedSignal, the diversified US manufacturer, has acquired Polymer und Filament Rudolstadt, a nylon manufacturer in east Germany, for an undisclosed sum. The company said it would invest about $140m in the plant in the next three years.

AlliedSignal, which claims world leadership in the production of certain types of nylon, said the plant would serve as the springboard for its growth in European plastics and fibres. Purchased from the state of Thuringia, it will initially employ 300.

AlliedSignal already makes artificial fibres at plants in France and the Netherlands, but this will be its first production site for nylon plastics in Europe. The company said that while revenues at the Rudolstadt plant were not substantial at present, it would allow expansion into other areas such as the manufacture of materials for car airbags.

The company said the attractions of the plant included well-developed infrastructure and good manufacturing equipment. It plans to invest in upgrading and expanding production, and in a development centre for plastics applications.

In recent years, AlliedSignal has been active in making European acquisitions, some in eastern Europe. At the start of this year, its automotive division acquired Fiat's brake business in Poland. Last year, it bought Ford's spark plug business in Wales.

Other recent European acquisitions include two purchases from Azko: a fluorochemicals business, bought last year, and a carpet fibres company, which came into the group in 1993.

AlliedSignal employs a workforce of about 16,000 across Europe and has built up annual sales of some $3bn.

Mr Frederic Poses, president of AlliedSignal engineered materials, said the German deal was an important part of the group's strategy to extend its plastics and fibres technology leadership.

New Holland breaks into positive ground

Fiat's agricultural equipment unit is reaping rewards of its shake-up, writes Andrew Baxter

New Holland, Fiat's wholly-owned tractors and combine harvesters subsidiary, reported net earnings of $356m last year, its first profits after three years of restructuring during which it accumulated losses of about $1bn.

The figures for 1994, the first to be announced publicly, underline the strong financial turnround at London-based New Holland since its creation in 1991 from the agricultural and earthmoving equipment interests of Ford, the US motor group, and Fiat, the Italian conglomerate.

Sales surged last year from $3.68bn in 1993 to $4.7bn, which includes $600m from the 54 per cent-owned Fiat-Hitachi hydraulic excavator company.

Operating profit jumped to $484.8m from $59m. Unit sales of tractors, excluding unconsolidated operations, rose to 86,300 from 73,000, while combined harvester sales surged to 4,700 units from 3,300.

The turnround is important for Fiat, which announces its final 1994 results today, because New Holland accounts for 12 per cent of group sales.

Mr Giorgio Garuzzo, New Holland's chairman and Fiat's chief operating officer, said sales would exceed $5bn this year.

Net profits would fall because of higher tax payments – last year the company was still using up tax loss carry-forwards.

The creation of what was originally called N. H. Geotech has been one of the most ambitious and painful global restructuring exercises in the off-highway equipment industry. In an interview last month, Mr Garuzzo said the decision to create the company – in which Ford initially retained a 20 per cent stake – had been the right one, even if there had been some surprise that Fiat was getting deeper into an industry from which Ford was withdrawing.

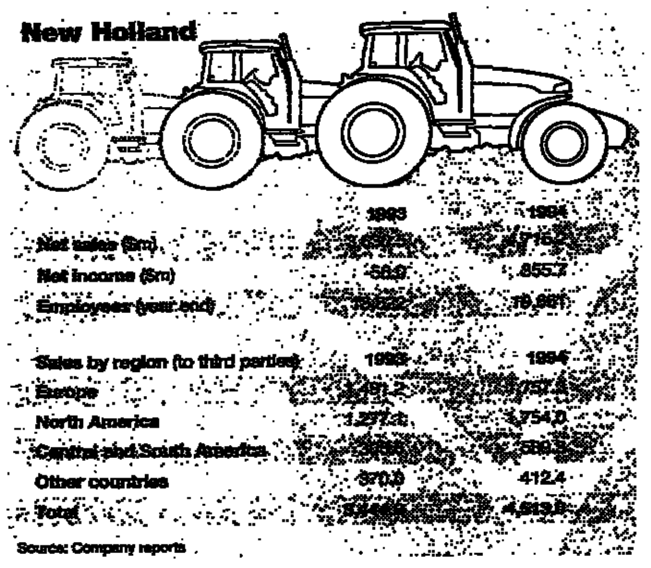
Both companies were the wrong size, he said, because they were squeezed between the biggest groups in the industry and niche producers. As full-line producers, their volumes were not big enough to cover heavy development and other costs.

However, Fiat wanted to stay in the agricultural equipment industry because it saw overall global demand might grow, with rising sales in developing countries offsetting further declines in Europe and a broadly stable position in the US.

The two companies' product ranges and geographical strengths produced a near perfect fit, he said, but New Holland faced a "down-to-earth, practical problem" in creating a global producer without losing market share or impairing product development.

"It was a question of cutting overheads by half," he said. Plant closures and retrenchment in Europe and North America reduced the workforce from an initial 30,100 to a low point of 17,700 in the third quarter of 1993.

Better market conditions since then have seen the workforce expand to about 19,500. That includes virtually all the 1,700 workers at Fiat-Hitachi.



Source: Company reports

In spite of the upheaval, New Holland's claimed global market share in tractors rose to 20.8 per cent from 19 per cent at the time of the merger – 7.6 per cent from Fiat and 11.4 per cent from Ford, said Mr Garuzzo.

He attributed this partly to keeping key people, including dealers, reassured about the changes. Also, new product development has been ring-fenced, and by 1997 all New Holland products will have been launched after the merger. "We believe our production capacity is adequate for the demand, and we may even be a bit short of capacity. A lot of overtime is being worked in our Basildon factory [in the UK]," he said.

Mr Garuzzo admitted, however, that the cost of integrating the two companies was perhaps twice as much as originally predicted. Big reductions in inventories were necessary, which meant that plants were idler than they would have been simply because of weak market conditions.

The complexity of the restructuring may have been underestimated, he said, and New Holland also wanted it to be completed quickly to minimise the upset for employees.

The financial burden of the shake-out was covered firstly by a $594m capital injection from Fiat in 1992, removing the losses from the balance sheet and restoring the company to roughly zero equity (shareholders' funds).

A further $120m capital increase this year will give the company a positive equity position. That would mark the end of the financial support from Fiat, he promised. "We are generating profits and cash, so we will be paying dividends."

If New Holland's early years were worse than expected, its current financial performance was better, said Mr Garuzzo. More than half of last year's turnround could be attributed to efficiency improvements with the rest based on increased volume and a better sales mix.

On balance, currency changes had been a slight help, but selling prices had not improved much.

Mr Garuzzo said New Holland's twin strategy was to make high-technology machines for the developed world and more basic equipment for developing countries.

Already, 35,000 New Holland tractors are produced each year under licence in Turkey, Pakistan and India, and Mr Garuzzo said he would not be surprised if half its tractor sales, by volume, were outside Europe and North and South America by the end of the century.

Traditional markets would still produce greater profit because the more sophisticated machines have higher margins.

Mr Garuzzo is particularly interested in developing New Holland's presence and product range in India, where it already has a minority stake in Escort Tractors. "The market will grow in sophistication, if not in the number of tractors sold," he said.

China was a less immediate priority, he said, and it was too early for New Holland to establish a presence there.

Tembec in C$300m bid for rival

By Robert Gibbens in Montreal

Tembec, an east Canadian timber, speciality pulp, newsprint and cartonboard producer, has launched a bid worth more than C$300m (US$220m) for competitor Malette.

The two would form an integrated forest products group with annual sales of more than C$1bn, modern mills in Ontario and Quebec, and ample fibre resources.

Mr Gaston Malette, founder-chairman of Malette who controls nearly all its senior voting stock, will tender his shares to the bid.

Analysts expect the bid to achieve more than the required two-thirds acceptance from subordinated voting shareholders.

Tembec is offering C$16.50 cash per Malette share, or alternatively 1.138 Tembec shares. It would also assume Malette's debt. Malette shares had been trading at about C$15 before the bid was announced.

● Repap Enterprises, the big North American timber, pulp and coated paper producer, is definitely not for sale, Mr George Petty, chairman, told the annual meeting yesterday.

"We, too, have heard the takeover rumours but I own 25 per cent of the shares and management a further 4 per cent," he said. "We're no sitting duck and a lot more shares are in friendly hands."

Silicon Graphics and Spielberg join forces

Silicon Graphics, a US computer software group, and entertainment concern DreamWorks SKG have announced a $50m joint venture to set up a digital animation studio to bring new production techniques to movies, AP-DJ reports from Mountain View, California.

Most of the investment will come from Silicon Graphics, a maker of special effects software and computer workstations.

DreamWorks SKG is the Los Angeles entertainment company recently formed by Hollywood director Mr Steven Spielberg, with Mr Jeffrey Katzenberg and Mr David Geffen. Its biggest outside investor is Mr Paul Allen, a co-founder of software group Microsoft.

INTERNATIONAL COMPANIES AND FINANCE

National Mutual tumbles to net loss of A$30.7m

By Nikki Tait in Sydney

National Mutual, the Australian life insurer in which France's Axa group is seeking to acquire a 51 per cent stake in return for a A$1.1bn capital injection, yesterday reported a net loss of A$30.7m (US$22.1m) for the half-year to end-March.

The insurer, which calculates the results under its own "capital-raising plan methodology" and (like most Australian insurers) includes both realised and unrealised investment gains/losses in the numbers, said that the figure compared with a A$20.6m profit a year earlier.

It said that premium income dipped slightly to A$1.17bn, from A$1.19bn in the first half of 1993-94, but that the investment contribution fell much more sharply, to A$145m from A$323m.

The latter figure comprises investment income of A$351.9m, compared with A$338.4m, offset by A$206.7m of realised and unrealised investment losses, compared with a A$15.2m loss last time.

Payments under policies were down to A$1.39bn, from A$1.9bn a year ago, but the positive adjustment in policy-related liabilities was smaller – A$411m against A$915m.

Operating expenses were A$262m, against A$292m a year earlier.

This left earnings before tax more than halved, to A$105m from A$225m. National Mutual then enjoyed a A$86m (A$6m) tax surplus, but after "earnings credited to policyholders" of A$222m, against A$210m, the group was left with a A$30.7m loss.

Statutory reserves fell by A$73m to A$1.39bn.

The Axa deal was announced in January, but policyholders have yet to approve the demutualisation scheme, and associated issue of shares to the French group.

This process – which will require a 75 per cent approval level – is expected to get under way shortly. If it is successful, National Mutual would expect to list its shares within two years.

Renison Gold close to winning Pancontinental

By Nikki Tait

Renison Goldfields, the Australian mining group in which Hanson, the UK conglomerate, holds a 40 per cent stake, yesterday claimed to be close to victory in its hotly-contested A$500m (US$360m) bid for Pancontinental Mining.

It said that, as of mid-morning, it controlled 42.9 per cent of Pancon's equity, and claimed to have written confirmation of intentions to accept its offer for a further 18m shares.

By late-afternoon, the former figure had risen to 49.1 per cent, with an additional 5m potential acceptances. If all these acceptances materialised, Goldfields – the Renison bid vehicle – would control more than 50 per cent of Pancon.

However, Pancon directors said they had no intention of conceding defeat at this stage, and condemned the Renison use of "phantom" acceptances – that is, those that have not actually been received – in calculating the number. Pancon's shares closed 8 cents higher yesterday, at A$2, while Renison remained unchanged at A$4.30.

The bidder has set today as the deadline by which it wants to achieve 50 per cent acceptances, in order to declare its bid unconditional, saying that the offer will otherwise lapse. But Pancon has also disputed this cut-off, saying it is "artificial" and "self-imposed".

Bank Bira profits soar in first quarter

By Manuela Saragosa in Jakarta

Bank Bira, one of Indonesia's leading banks in commercial paper lending and domestic loan syndication, said its net profit for the first quarter rose more than 100 per cent on rapid growth in total assets and fee-based income.

Bank Bira, which was listed on the Jakarta stock exchange in an initial public offering last July, said net profit in the first quarter rose to Rp6.4bn (US$2.9m) from Rp 2.9bn in the same period of the previous year.

Funds raised from the IPO were used to increase the bank's assets, which stood at Rp1,292bn on March 31 1995 compared with Rp656bn a year earlier. Growth in assets has resulted in an increase of 120 per cent in interest income, which totalled Rp52.6bn in the first quarter this year.

The bank has stepped up its activities in commercial paper and loan syndication in the past year, with the result that fee-based income grew by over 200 per cent to Rp7.6bn in the first quarter.

Among the facilities arranged by Bank Bira are a US$50m syndicated loan for an Indonesian ceramics company and a US$31m loan for the construction and development of the Ritz-Carlton resort in Bali.

Reprimand for Morgan Stanley's HK arm

By Simon Holberton in Hong Kong

Morgan Stanley Asia Limited, the Hong Kong arm of the US investment bank, was yesterday reprimanded by the Securities and Futures Commission, Hong Kong's corporate watchdog, for allowing four employees to trade securities without a licence.

The Hong Kong reprimand follows the £240,000 ($381,000) fine which the UK's Securities and Futures Authority levied on the US bank for breaches of financial services regulations – the largest fine imposed by the authority.

It emerged on Tuesday that Morgan Stanley had also offered compensation of about $30m to five clients who suffered losses on their investments. It also paid for the costs on the UK authority's investigation.

In Hong Kong, the commission said Morgan Stanley had also failed to provide sufficient internal procedures to ensure that those needing registration were registered.

It noted, however, that in considering the level of penalty to be imposed on Morgan Stanley – a warning letter – it took into account the bank's co-operation with the inquiry, and its prompt introduction of procedures and management controls to ensure that staff were properly registered.

The commission said that it also took into account the fact that no investor, in Hong Kong or overseas, had been financially prejudiced by the late registration.

Philip Morris may be sued over Slovak unit

By David Wighton

Philip Morris, the US tobacco and foods group, is being threatened with legal action over the treatment of minority shareholders in its Slovak chocolate subsidiary, Figaro.

Institutions with 11.8 per cent of Figaro's shares have said they will take the company to court unless it changes its response to their requisition of a special shareholders' meeting. The company insists it has complied with all legal requirements.

Following the requisition on May 9, the company said it would hold an extraordinary meeting at the same time as the annual meeting on June 16. But the dissident shareholders, led by Czech fund manager Prague Capital Partners and US arbitrage firm Wyser-Pratte & Co, said the company had failed to publish details of the agenda they requested.

The shareholders have accused Kraft Jacobs Suchard, the Philip Morris subsidiary that manages Figaro, of depressing profits by channelling sales through other group companies and exacting high management charges.

MAS airline operations find going tough

Malaysian carrier shows overall improvement, but analysts are disappointed, writes Kieran Cooke

Malaysia Airlines (MAS), one of Asia's most ambitious but financially unpredictable carriers, has revealed mixed year-end results with improvements in overall group profit but reflecting continuing difficulties in airline operations.

Group pre-tax profit for the year to March 31 1995 was M$148m (US$59m), compared with a pre-tax profit of M$16m last year. Turnover increased by 17 per cent to M$4.76bn. The MAS board is recommending a final dividend of 7 cents, compared with 2 cents last year.

Mr Tajudin Ramli, a Malaysian entrepreneur who took control of MAS in a highly leveraged M$1.79bn deal last year, said he was more than satisfied with the results. But he admitted that in spite of a considerable upturn in the international airline industry and a reorganisation of MAS's management structure, the group's airline operations were still not making money.

Mr Tajudin said associated activities such as catering and duty-free operations had contributed to the improvement in overall performance.

MAS was reluctant to divulge many financial details. It said there was high growth in income from leasing aircraft but would not say how much was involved. MAS both leased out and leased in aircraft during the year. Analysts say it is not clear if the costs from leasing in aircraft were included in the figures.

"These results are well below market expectations," said a Singapore-based airline industry analyst. "MAS is operating in the most buoyant airline market in the world. It should be showing some better figures by now."

MAS has always had big ambitions. In the early 1990s, when the global airline industry was in recession, the Malaysian carrier announced one of the world's most comprehensive fleet expansion programmes, ordering 72 aircraft for delivery over the 1991-96 period costing a total of M$10.6bn. MAS is now the biggest operator of Boeing 737-400s outside the US.

MAS said the purchases were needed to meet the needs of a fast expanding market, particularly in the east Asia region. But the expansion programme has resulted in a steadily mounting debt: MAS said its net debt now stood at M$6.6bn.

Finance charges rose by M$143m, or 77 per cent, in the last year: analysts say debt could soar to more than M$8bn by next year. At the end of 1992, MAS raised US$700m in what was Malaysia's biggest rights issue. Analysts predict another cash call in the next 12 months, though Mr Tajudin said yesterday that this was unlikely.

MAS has expanded its capacity by 19 per cent over the last year and passenger and cargo traffic grew by a similar amount. However, the overall load factor – seen as an important barometer of performance in the industry – improved only marginally to 64 per cent. The load factor of neighbouring Singapore Airlines (SIA) is 70 per cent. SIA is competing fiercely with MAS on many routes: unlike the Malaysian carrier, SIA is debt-free.

Investors have pinned their hopes on Mr Tajudin and his new team. MAS shares have been climbing steadily on the Kuala Lumpur market over the last 18 months – from M$5 at the beginning of 1994 to just under M$9 now.

Mr Tajudin, who has multi-million dollar interests in telecommunications, tourism and transport, has cut staff and divided MAS operations into autonomous "profit centres". Capacity has been added to lucrative long-haul routes, particularly those to Europe. MAS has been at the forefront of a price war among Asia's airlines, cutting fares on some routes by as much as 30 per cent.

From yesterday MAS is operating 14 flights a week to London under a code-sharing agreement with Virgin Atlantic. The Virgin arrangement will also operate on MAS flights to Australia. A further code-sharing arrangement has been agreed with British Midland on routes within the UK and to Dublin.

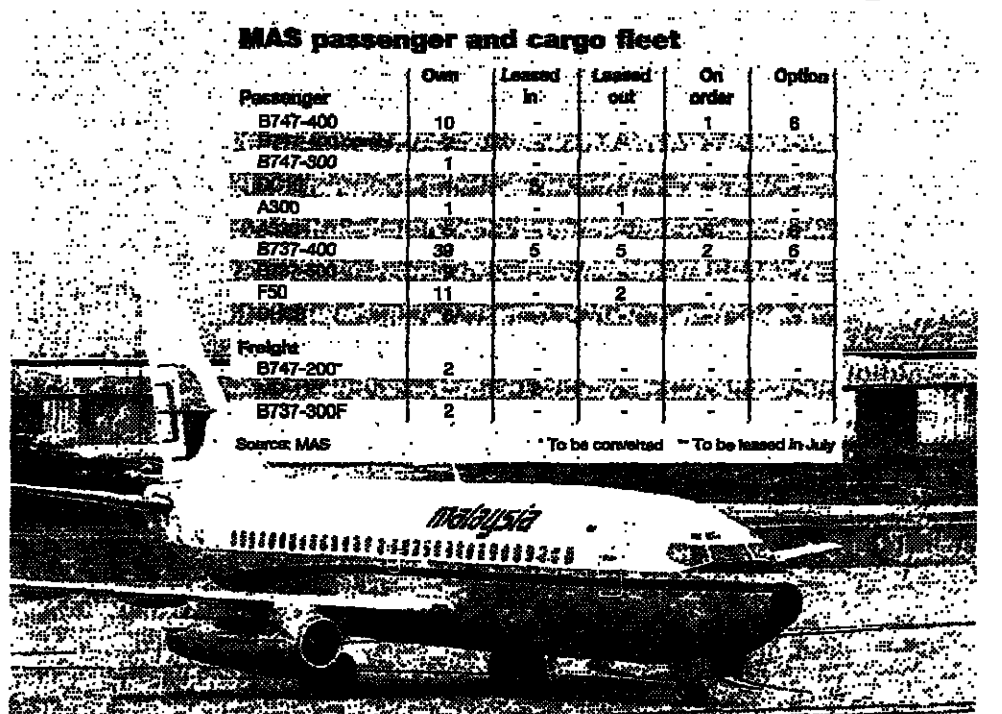
MAS is also opening new routes to North America. Meanwhile, MAS has bought stakes in smaller carriers in Cambodia and the Maldives. "Our ambition is big, very big" says Mr Tajudin.

Analysts are holding their breath, however. They point out that though MAS is now fully privatised, the government still retains a "golden share". MAS is still burdened with many lossmaking domestic routes. Domestic fares were increased by up to 20 per cent in 1993. The government, battling to counter inflationary pressures in the fast-expanding economy, is unlikely to countenance further fare increases. MAS said that over the past year, revenues on its international routes grew by 19 per cent. However, on local routes there was only a 1 per cent rise.

The government has made various announcements concerning the formation of a second airline which would take over many local routes, but negotiations have stalled.

Meanwhile, some lossmaking international routes – to Mexico City and Buenos Aires – seem to have been inaugurated more to raise Malaysia's global profile than for commercial reasons. Mr Tajudin said there were no plans at present to cut these routes.

MAS is forecasting a better performance over the coming year, but observers will be keeping their seat belts firmly fastened in the months ahead.



MAS passenger and cargo fleet

	Own	Leased in	Leased out	On order	Option
Passenger					
B747-400	10	-	-	1	6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B747-300	1	-	-	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
A300	1	-	1	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B737-400	39	5	5	2	6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F50	11	-	2	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Freight					
B747-200*	2	-	-	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B737-300F	2	-	-	-	-

Source: MAS * To be converted ** To be leased in July

Shareholders agree £860m investment banking sale to SBC

Approval for Warburg disposal

By John Gapper, Banking Editor

The sale of SG Warburg's investment banking businesses to Swiss Bank Corporation was agreed at a subdued 15-minute shareholders meeting yesterday despite strong criticism of the UK bank's management from a former board director.

The meeting at Warburg's headquarters, attended by about 150 shareholders, approved the £860m ($1.35bn) sale with only about 10 votes cast against. The sale is still conditional on approvals by regulators.

Sir David Scholey, Warburg's chairman and chief executive, was questioned critically by Mr Peter Hardy, who retired three years ago as a managing directors of the investment banking arm, and who described the sale as "rather depressing".

Mr Hardy said that Warburg had undergone an "ill-conceived expansion, and unjustified increase in costs". Shareholders were having to sell a business that until a year ago was considered the UK's premier investment bank.

He said that the £63m premium to net asset value being paid by SBC was "miniscule in relation to the value and goodwill in the group, and far less than was paid by Warburg for many of the constituent businesses of the group".

Sir David replied to another shareholder's question on whether Warburg's investment bank could have remained independent by saying the results in the year to March 31 had been "surprisingly and seriously negative".

He said that for the investment bank to have remained as an independent business "would have required extremely radical and wrenching surgery, with other things happening in the market place that would not have assisted us".

The board had "looked very carefully at the alternatives", but had decided that the costs that would have been required to reshape the business "were greater than the current shareholders should be asked to bear".

The investment bank sale, giving shareholders 365p per share, is to be followed by a proposal for "a scheme of arrangement" to allow Warburg's 75 per cent stake in Mercury Asset Management to be distributed among them.

A document giving details of the proposed scheme is expected to be posted to shareholders shortly.

Allied Domecq shakes up managers

By Christopher Price

Mr David Jarvis, chief executive of Allied Domecq's wines and spirits division and a main board director, was yesterday made redundant as the drinks and retailing group announced a shake-up of its senior management.

While Mr Jarvis was departing, two other senior managers were appointed to the board as the company made its first substantial organisational changes since the takeover of the Domecq spirits group last year.

Mr Michael Jackaman, chairman, said: "David Jarvis has done an excellent job and been a very effective chief executive, but under the reorganisation his job has been taken over by the group chief executive, Tony Hales. There isn't a job which matches David's experience or his level of responsibility."

He added: "He should be a chief executive in another big plc." The two sides are discussing compensation. Mr Jarvis was on a three-year rolling contract and is likely to seek additional compensation.

Mr Jarvis, 47, joined Allied in 1972 and was appointed to the board in 1991 as chairman and chief executive of Lyons, the group's food subsidiary. He became chief executive of the spirits business a year later.

Allied is to combine its traditional wines and spirits business with its Domecq interests, organising it on a brands and regional operations basis. The brands division will be headed by Mr Peter Wood, who has been undertaking a similar job at Allied Domecq Spirits.

Among the regions, European operations will be headed by Mr David Scotland, who will also join the board. Mr George McCarthy is also joining the board as director responsible for the group's north and south American operations, with the exception of Mexico.

"The board's strategic priorities of developing our brands and international business will be matched by a structure which achieves the right balance between overall brand focus and closeness to the local market."

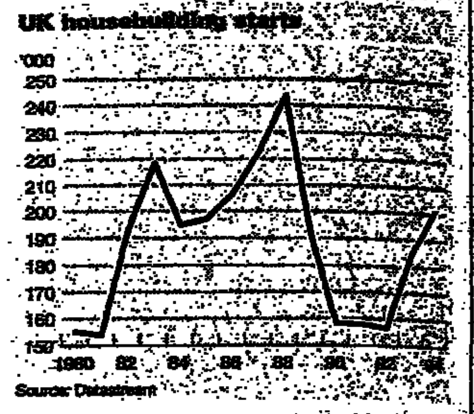
LEX COMMENT

UK housing

The housing industry's campaign to reverse government cuts in tax relief and income support for home buyers looks set to end in defeat. With Mr John Major apparently blaming home buyers for the late 1980s' inflationary spiral, he can hardly be expected to fuel a return of house price inflation.

With little hope of salvation from the government, home owners might hope for the economy to come to their rescue. After all, as incomes rise, homes are becoming more affordable and concerns over rising interest rates are fading; hence the recent rise in the housebuilders' share prices. Unfortunately, the buyers are still not biting. Mortgage lending is down, the latest set of statistics on property prices show further falls, and fewer new homes are being built. Job insecurity remains high and many economists argue that the number of workers on short-term contracts is growing. Not surprisingly, people are less willing to commit themselves to 25 year property loans. So the prospects for house prices this year are bleak.

Next year, though, the market should pick up. Tax cuts seem certain before the next general election. This should feed through into consumer confidence and the housing market. Further increases in incomes will also make property increasingly affordable, drawing more first-time buyers into the market and allowing existing home owners to move up the property ladder. But the speculative froth of the last property cycle is unlikely to be repeated.



Irish Press board says it faces liquidation

The Irish newspaper group, Irish Press Newspapers, is to be put into liquidation next week, according to the company's board. None of the group's three titles have appeared for more than a week because of industrial action by the National Union of Journalists after the summary dismissal of a journalist.

The group is losing I£200,000 a month and its financial position has dramatically weakened in recent weeks. The Irish supreme court has overturned a judgment that the Irish Press was owed I£9m in damages by its former 50 per cent owner, Ingersoll Publications.

Union sources suggest the dismissal of the group's business editor, for publicly criticising the company, was a tactic by the management to engineer a dispute and so bring liquidation closer.

The lossmaking group was propped up last December when Mr Tony O'Reilly's Independent newspapers took a 25 per cent stake for I£1.3m and lent the group another I£2m. The Irish competition authority subsequently ruled the investment was illegal and an abuse of a dominant position.

The group due to go into liquidation next Tuesday, which allows four days for political intervention to save the company. One option is for the government to overrule the competition authority allowing further investment by Independent newspapers which is now seen as the only possible investor.

Cash-rich Boots looks for continental purchases

By Neil Buckley

Boots, the retailing and healthcare group, said it had "no inhibitions" about handing back more of its £600m-plus cash pile to shareholders if it could not find "sensible" acquisitions. The group announced an 8 per cent increase in profits, before exceptional gains, to £525.6m ($825.2m).

Boots has already returned £508m to shareholders through a share buy-back last November.

Sir James Blyth, chief executive, said the company was searching for acquisitions to strengthen its over-the-counter drugs business – Boots Healthcare International – especially in continental Europe. But with other groups seeking similar acquisitions, asset prices were high.

Sir James said a retail acquisition was unlikely until the UK store chains acquired through its £900m purchase of Ward White in 1989 were performing up to scratch.

The City believes another share buy-back or special dividend is likely. But the shares fell 8p to 510p, on disappointment that there was no immediate buy-back. Analysts downgraded current year profits forecasts by £20m to £520m-£530m after Boots warned of a higher tax charge.

Last year's pre-tax figure was before an exceptional gain of £320.1m on the disposal of Boots pharmaceuticals to BASF and the Farleys food business to Heinz – after charging goodwill of £383.4m – and other exceptional profits of £4m.

The core Boots the Chemists chain increased like-for-like sales by 3.9 per cent and operating profits grew 8 per cent to £350m. Halfords, the car accessories chain, lifted like-for-like sales 4 per cent, with profits up more than 40 per cent to £20.5m.


Newsteam

Sir Michael Angus, chairman: money could go to shareholders

SKr680m Nordic travel buy for Hogg Robinson

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Hogg Robinson, the travel, transport and financial services group, yesterday announced agreement to acquire the Bennett Travel Group, the Nordic business travel management company, for SKr680m.

Bennett Travel is part of Business Travel International (BTI), the joint venture business travel management group in which Hogg Robinson has a 13.5 per cent holding. The acquisition will make Hogg Robinson, which manages BTI's operations, the largest shareholder with 21.5 per cent.

Funding will come partly from a placing and open offer of 17.39m shares at 160p to raise £25.3m. New borrowings will add £20m and the balance will come from resources. Shareholders will be offered new shares on a 1-for-4 basis.

The shares fell 5p to 175p.

Bennett Travel, the market leader in business travel in Norway, Finland, Denmark and Sweden, was put up for sale by its owners Volvo and the Swedish Co-operative Society in February.

Mr Brian Perry, chairman of Hogg Robinson said that given Bennett Travel's role in BTI, its acquisition was a "major move within the overall business travel sector and should greatly enhance our international positioning."

Bennett Travel reported pre-tax profits for 1994 of SKr64.9m and has net assets of SKr46.2m.

Hogg Robinson also announced pre-tax profits of £14.3m (£21.5m) for the year to March 31. Excluding exceptionals profits were £17.4m (£16m).

American Endeavour action

By Andrew Taylor

The American Endeavour Fund is facing further legal proceedings over its decision to appoint Kleinwort Benson (Jersey) Asset Managers as its fund manager in place of Berkeley Govett International.

American Endeavour in February, sacked Govett, alleging 'a sustained pattern of wrong-doing' which had resulted in damage to the fund. It is suing for damages of at least $20m.

Govett in turn is suing American Endeavour for damages of more than $100m for allegedly causing its proposed acquisition of Duff Phelps, the US fund manager, to fail.

Yesterday American Endeavour announced that Pacific Investments a registered shareholder in the fund had also begun legal proceedings in the Royal Court of Jersey.

Pacific Investments is asking the court to set aside the appointment of Kleinwort Benson, replace directors of American Endeavour with court appointees and restrict the voting rights of Firmandale Investments, American Endeavour's majority shareholder.

The fund said it would defend the action brought by Pacific Investments.

Raw material costs hit Lamont

By Motoko Rich

Rising raw material prices and the depressed UK housing market forced Lamont Holdings, the Northern Ireland-based textile group and carpet manufacturer, to issue a trading statement yesterday which left the shares down 47p to 300p.

At the company's annual meeting in London, Sir Desmond Lorimer, chairman, echoed the sentiments of other UK household goods manufacturers earlier this year. He said trading in the UK during the past two months had been "much more difficult than anticipated" and "maintained at 1994 levels".

Analysts downgraded their 1995 forecasts by more than £1m to about £13m. Lamont's 1994 pre-tax profits fell from £11.49m to £9.1m because of restructuring costs and difficulties in passing on price rises.

The group was the second carpet maker in a week to blame raw material price rises for a cut in profitability. Readicut, the household textile, carpeting and yarn company, reported a 33 per cent drop in pre-tax profits last week.

Lamont said it had suffered 150 per cent increases in the price of polypropylene, used in its furnishings fabrics and carpets.

LIG bounces back with £15.2m

By Peggy Hollinger

London International Group, the condom and rubber glove manufacturer, yesterday offered the market a bullish progress report on the first stage of its three-year recovery programme with a substantial swing back into the black.

Pre-tax profits were £15.2m for the year to March 31, against losses of £175.1m. Exceptional charges amounted to £2.8m (£168.3m).

Mr Nick Hodges, chief executive, said LIG had exceeded targets set at the time of the £115m rescue rights issue in June last year. Gearing, at 40 per cent, was comfortably below the 50 to 70 per cent goal and net debt was down from £168m to £44.5m.

LIG was also on track with its remaining disposals in the health and beauty aids business, having withdrawn from photoprocessing. The company expected to raise between £30m and £50m from asset sales.

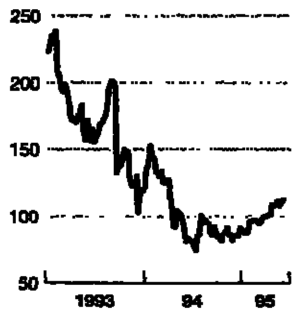
The withdrawal from photoprocessing left group sales down by 20 per cent at £318.1m. Operating profits, excluding discontinued businesses, increased by £5.9m to £26.6m.

Mr Hodges said the first year of the recovery programme had been successful, despite challenging targets, but there was still much more to achieve.

LIG would now focus on building its core businesses organically – through new products such as the polyurethane condom, Avanti – and by acquisition.

The global condom market had been slow in the last year, growing on average just 2 to 3 per cent. Manufacturers had also been hit by doubled latex prices. However, Mr Hodges said LIG had been able to cover higher raw material costs with price increases.

London International



Source: Datastream

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
ABI Leisure	6 mths to Feb 28	42.1	(34.8)	1.81	(1.7)	4.4	(4.2)	1.42	July 7	1.35	-	4.06
Barcom	6 mths to Mar 31	12.3	(15.3)	0.103	(1.49L♠)	0.6	(8.5L)	nil	-	nil	nil	nil
Boots	Yr to Mar 31 ★	4,308	(4,167)	849.7♥	(416.3♠)	65.7	(27.7)	11.65	Aug 23	10.1	17	15
Brown & Tawse	Yr to Apr 2	76	(94)	2.421L♠	(3.77L♠)	7.4L	(8L)	nil	-	nil	nil	nil
Glencar ♣	Yr to Dec 31	-	(-)	0.208L♠	(0.49L♠)	0.6L‡	(1.9L)	-	-	-	-	-
Hambro Insurance	Yr to Mar 31	89	(78.5)	8.03	(8.33)	7.4	(7.8)	3.7	Aug 18	3.7	5.55	5.55
Hogg Robinson	Yr to Mar 31	198.2	(153.8)	14.3♠	(21.5♥)	11.82	(23.49)	4.65	Aug 11	4.35	7.6	7.1
London Intl	Yr to Mar 31	318.1	(398.6)	15.2♠	(175.1L♠)	4.02	(90.62L)	1	-	nil	1	nil
Lookers	6 mths to Mar 31	188.2	(187)	2.44♠	(3.09)	5.1	(7.8)	2.5	Sept 29	2.4	-	7.5
M&G	6 mths to Mar 31	180.1	(245.6)	27.6	(31.2)	26.4	(29.1)	14	July 19	13	-	30
Mid Kent	Yr to Mar 31	38.2	(36)	8.31	(7.51)	37.3	(33)	7.3	July 19	6.5	12.6	11.5
Minmet ♣	Yr to Dec 31	0.088	(0.311)	1.12L♠	(0.033♥)	0.88	(0.06)	-	-	-	-	-
N Ireland Elect	Yr to Mar 31	497.7	(481.9)	86.8♠	(74.9♠)	41	(36.7)	9.5	Oct 2	8	13.4	11.39
OMI Intl	Yr to Mar 31	40.3	(36.6)	4.2L♠	(0.073)	6.6L†	(0.2)	nil	-	1	0.75	1.75
Pillar Property	Yr to Mar 31 ‡	25.1	(11.6)	3.29	(0.744)	3.9	(2.1)	3	July 3	-	3	-
Powell Duffryn	Yr to Mar 31	791.3	(728.5)	36.9♠	(33.4♠)	33.7	(30.9)	17†	Aug 8	17	25	23.6
Quadrant	Yr to Feb 28	51.4	(43.7)	0.164	(0.786♥)	0.58	(3.36)	0.25	-	nil	0.25	nil
Rowlinson Secs	Yr to Mar 31	12.9	(10.2)	2.79	(3.13)	14.03	(16.7)	2.03	July 31	1.56	2.34	1.8
Siebe	Yr to Apr 1 ★	2,146	(1,864)	275.1♥	(217.2♥)	37.5	(31.4)	8.07	Oct 2	7.34	12.1	11
Silmna	6 mths to Mar 31	8.58	(8.73)	0.21	(0.535)	1.6	(4.1)	1.3	Aug 17	1.3	-	3.9
Stakis	6 mths to Apr 2 ★	82.8	(70.7)	11.5♥	(6.64)	2.21	(1.55)	0.75	Sept 7	0.65	-	1.55
Unidare ♣	6 mths to Mar 31	82.4	(84.8)	4.11	(4.6L♠)	15.97	(25.92L)	4.6	Aug 5	4.5	-	15.5
Warner Estate	6 mths to Mar 31	6.93	(5.89)	3.9	(3.66)	5.88	(5.65)	3.85	Oct 6	3.65	-	11.35
Wintrust	Yr to Mar 31	-	(-)	2.81	(2.51)	17.48	(14.97)	7.7	Oct 2	6.95	11.35	10.25

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Pep	6 mths to Mar 31	120.4	(121.3)	1.07	(0.746)	1.96	(1.65)	1.5	July 10	1	-	3.5
Siam Selective	Yr to Mar 31	157	(174)	0.014	(0.238L)	0.1	(0.9L)	0.45	July 20	0.6	0.45	0.6

Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. ‡Comparatives for 9 months. †On increased capital. §USM stock. ♣Irish currency.

JOBS: Is the 'new' flexible labour market a return to the past? asks Robert Taylor

Subcontractors and temporaries take over

No subject is more prone to fashionable theorising than employment. Apocalyptic talk about the "end of the job" and "the abolition of work" has grown among employment gurus in recent years as they have trumpeted the arrival of what they call the "new" flexible labour market.

The full-time permanent job is being rapidly replaced by the greater use of subcontracting and temporary work, as well as an increased autonomy in hiring and work allocation by skilled work groups and greater managerial discretion in the workplace in the making of employment decisions.

Those trends are more developed in the US than in Europe.

As Mr Peter Cappelli, co-director of the US-based independent National Center on the Educational Quality of the Workforce, told a conference this week in Washington, all of this was familiar in work organisation in pre-1915 America.

He said at that time there was the "putting out" system where piece-rate contracts were negotiated with home workers; "internal contracting" which covered contractors working inside the company; and the "drive" system which provided foremen with complete autonomy in the workplace.

Their common theme, Cappelli argued, was "the absence of a system of formal rules for managing employees and heavy reliance on markets and individual contracting".

After the first world war, employers found it was more efficient for them to manage employment inside the company rather than through market-based contracting. It ensured "predictability and order" in the workplace, reduced "costly and time-consuming" efforts in enforcing contracts, and reflected scientific management where each job had a narrowly specified description.

These features characterised the 20th century organisation of work that "helped insulate employment from the pressures of competitive product and labour markets".

But Cappelli argues that in recent years, changes in market preferences have made fixed investments like long-term labour costs obsolete much more quickly as development time has been cut drastically. Increased competition has added to the pressures on the internal employment system, while in the US trade union decline and laws making it more expensive to hire full-time workers have enhanced the strategic advantage of a return to the market-based contract culture of pre-1915 America.

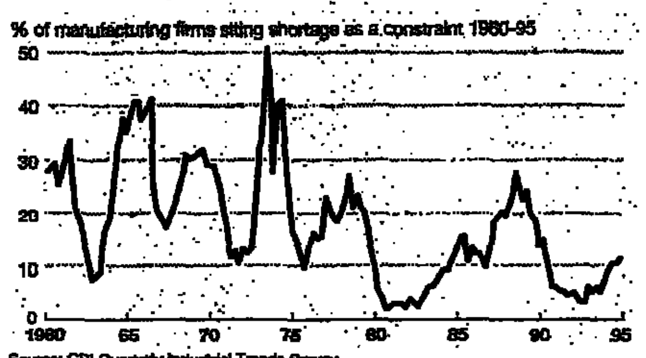
The results have not all proved beneficial, particularly for workers. It has meant "less job security, especially for employees whose characteristics seem to put them in the 'core' of the workforce, more job switching, flatter job hierarchies that are more difficult to enter and to move up, and compensation and training decisions that are more governed by the outside labour market".

Changes in work demand special skills and training which assumes greater employee attachment and tenure to ensure firm-specific investments pay off, but instead attachment of the worker to the firm seems to be weakening. The growth in occupation-specific skills makes it less attractive to individual employers to train because they may not recoup the investment made in their workers who become more marketable. As a result, workers themselves will have to develop their own skills and manage their own careers with a likely decline in work-based training.

Cappelli warns of the "distributive justice aspects" of these trends. He points out that at present employers are initiating and reaping gains from the changes in the employment relationship with their strengthened bargaining position through the decline in real wages, rise in job insecurity and spread of involuntary part-time employment.

The shortage of skilled labour

% of manufacturing firms siting shortage as a constraint 1960-95



Source: CSI Quarterly Industrial Trends Survey

It has become a cliché that the UK economy – unlike others in western Europe – suffers from the consequences of persistent skill shortages. But in a spirited rebuttal to the conventional wisdom, Mr Peter Robinson, from the independent Centre for Economic Performance at the London School of Economics, argues the familiar picture needs challenging.

"The current incidence of reported skill shortages is low by historical standards," he asserts. In January the Confederation of British Industry found only 10 per cent of manufacturing firms reported their output would be limited over the coming four months by skilled labour shortages. But during the period from 1960 to 1979, an average 24 per cent of firms reported such shortages as an output constraint with peaks of 42 per cent in June 1966 and 51 per cent in October 1973. The picture improved to 28 per cent in 1988.

Posing the question of whether a gradual and sustained output recovery, with an annual 3 to 4 per cent growth rate sufficient to cut unemployment by one percentage point a year, would lead to skill shortages large enough to stimulate significant additional wage inflation, Robinson answers with a resounding No. He believes what labour shortages the UK suffers from have "minimal implications for wage inflation". He argues the "real" skill shortages in the labour market lie primarily among professional and technical occupations, seen in the demand for certain kinds of teachers, nurses, engineers and technicians.

But since 1988 there has been a "significant increase in higher education enrolment" which he believes "augurs well for the general supply of highly qualified labour". He also believes some genuine skill shortages "probably" exist among certain craft and other intermediate skill occupations, but he believes it remains unclear just how "many of the recruitment problems faced by employers are to do with individuals lacking appropriate qualifications as opposed to appropriate experience or personal skills".

"It is hard to conclude from the evidence that British employers are reporting they face shortages of tens of thousands of craft workers so it is not clear the authorities' need to sponsor vast training schemes," he says. He urges more "small scale, well targeted high quality programmes". In a message that will please the government, he believes "renewed wage and price inflation may well threaten in the event of another external shock to the economy, but skill shortages in the 1990s do not pose a major threat to a sustained gradual economic recovery".

1 Rethinking Employment by Peter Cappelli, taken from Change at Work a forthcoming book from Oxford University Press. 2 Skill Shortages and Full Employment; How Serious a Constraint? by Peter Robinson, Centre for Economic Performance, London School of Economics.

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John Sisk & Son Ltd is a privately owned expanding national building contractor, whose multi-million pound work portfolio ranges from new build and refurbishment projects for clients in the Retail, Leisure, Health, Hotel & Manufacturing sectors. Our quality reputation and strength is founded on a traditional work ethic, combined with advanced management techniques, which has placed us at the forefront of our industry.

Due to the successful growth, and future expansion plans for the company, we are now seeking to recruit a Financial Accountant who can bring stricter controls to the accounting & management functions. The position calls for a pragmatic and tough minded qualified chartered accountant, a self-starter probably aged 26-35. Ideally with a Practice & Construction industry background, the successful candidate will certainly have experience in a senior financial management position, in a medium/large sized company. As part of the senior management team, you will be commercially minded, and will be responsible for all financial reporting. You will possess good communication skills, and enjoy the challenges of working within a dynamic environment where real career opportunities exist for the successful candidate.

Please write with a full CV, including current salary details to:

Helen Gill, Recruitment Manager,
John Sisk & Son Ltd,
Park House, Frogmore,
St Albans, Herts AL2 2NH.

FINANCE DIRECTOR

INTERNATIONAL PROJECT FINANCE

Warwickshire

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Having already established an international reputation for excellence across a range of capital intensive manufacturing sectors, this international organisation is now pursuing an aggressive marketing strategy to enhance further its profile by targeting a range of projects that require substantial levels of investment on an international basis.

The key feature of this strategy has been the formation of a skilled and capable organisation which has provided the foundation of a new company dedicated to spearheading an innovative and creative approach to project financing.

The appointment of a Director for this position is seen as an important step in enhancing clear financial controls, procedures and disciplines across the business as well as providing an in-depth knowledge and understanding of implementing key initiatives which will need to be put into place. Specifically you will:-

- Identify and assess major international project financing proposals.
- Source and agree appropriate levels of financing from a variety of institutional and industrial sources.
- Develop key financial and analytical mechanisms for monitoring the on-going profitability of projects and assessing longer term investment return.

With an already established track record in senior financial management or international project financing gained from within a corporate or institutional environment, you will now be ready to move into one of the most exciting and dynamic business environments and contribute to the undoubted successes and achievements that it will make.

You must be able to demonstrate a clear level of responsibility and authority at Board level and possess superior interpersonal skills which will be key characteristics for this appointment.

*Interested candidates should write to **Charles Austin** at Herst Austin Rowley, 30 St. George Street, London W1R 9FA, enclosing a full Curriculum Vitae and quoting reference CA601.*

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Finance Director

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The Finance Director will be responsible for the entire finance function with particular emphasis on operational financial management, planning, project financing, statutory reporting and the ongoing development of an accounting team. It is essentially a hands-on role, demanding the ability to be equally effective at both routine and strategic levels. The successful candidate will support the Managing Director in the formulation and execution of profitable long term strategies for the business.

Candidates, unlikely to be aged less than 40, will be qualified accountants who can demonstrate a broad range of senior level experience gained in a variety of service led environments. Strong technical and commercial ability, excellent managerial, communication and negotiating skills are essential.

Applicants should forward a comprehensive CV, quoting ref 222616 to Mark Hurley FCMA, Executive Division, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH.

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Reporting to the Group Finance Director, the role of Financial Planning Manager is focused on several key areas:

- Financial planning and analysis for the whole group including regular reforecasting
- Commercial involvement with operational management
- Cashflow forecasting and reporting for external institutions
- Competitor comparative performance analysis.

This will involve considerable exposure to senior management across the company, and provide the opportunity to make a significant contribution to the group's financial performance.

You will be a qualified accountant aged 28-34 with experience of a planning and analysis role in a forceful, demanding environment. Sound commercial judgement, attention to detail, flexibility and the capacity to work to tight deadlines will be essential.

To apply, please write with a full cv quoting ref. no. 2124/FT to Wayne Thomas, Wheale Thomas Hodgins Plc, Executive Resourcing, 13 Berkeley Square, Clifton, Bristol BS8 1HG.

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Please forward a brief CV or phone Helen Whiteman at Arthur Andersen, 1 Surrey Street, London WC2R 2PS on 0171 438 3769.

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COMMODITIES AND AGRICULTURE

MARKET REPORT

Copper leads base metals prices higher

COPPER led other base metal prices higher on the London *Metal Exchange* yesterday but TIN and NICKEL broke away from the pack to race up sharply in late afternoon dealings.

Copper broke above key technical resistance around $2,845 a tonne for the three months delivery position, triggering stop-pre-set buying orders. The price reached $2,875 at one point but the rise was capped by commission house selling and profit-taking and by the end of after-hours "kerb" trading three months copper stood at $2,867, up $26.

As copper was settling back TIN charged higher, ending the day up $365, or over 6 per cent, at a four-month high of $6,360.

Stop-loss buying orders were triggered at various chart-based resistance levels, fuelling the rally, traders said. But there was good fundamental justification for higher prices with supplies of high-grade material still tight. That was evident in the widening of the cash premium over the three months price widening from $67 to more *than* $75 a tonne.

Traders generally expected LME stocks to continue to decline; possibly pushing nearby spreads even wider. But some noted a fair level of lending (selling cash and buying forward) had emerged, suggesting that the tightness should not bite too hard.

Nickel rose in tandem with copper early on before rising sharply with tin during the afternoon.

London Commodity Exchange white SUGAR futures turned tail in afternoon dealings on a perception the earlier buying on news of a *sharp rise in the Brazilian* export had been overdone. A trader said the Brazilian decision to raise the tax from 2 per cent to 40 per cent indicated future supplies would be tighter; but its affect on supplies might be limited given that analysts had been upgrading output forecasts.

Compiled from Reuters

Coffee deficit put at 7.5% in 1995-96

German statistics agency F.O. *Licht expects* 1995-96 *world coffee* production to fall short of demand by 7m bags (60kg each), reports Reuters from Ratzeburg.

In a report, *Licht said* the full effects of last year's frost and drought in Brazil would be felt in the 1995-96 crop year. Initial estimates of Brazil's output varied, it said, "but at this stage 16m bags appears to be a realistic forecast". That would compare with an estimated 26m bags this season and 27.2 in 1993-94.

"This points to world production falling to some 85m bags or about 7m bags below global demand," Licht said.

The report warned, however, that said Brazil's stocks of 14.68m bags should not be overlooked, although the Brazilian government *had stated* they will only become available for export when the 20-day moving average of the International Coffee Organisation's arabica indicator rose above 190 US cents a pound, about 35 cents above the present level.

"The future market trend would seem to depend upon whether producers can afford to adhere to their [supply] retention scheme and whether the Brazilian government stick *to their assurance over these* stocks," Licht said.

The report sharply reduced estimated world coffee consumption in the current crop year.

In its second estimate of the world coffee balance, it said it revised its 1994-95 forecast to match production at 91.5m bags from a December forecast of a production deficit of about 1.1m bags.

Licht said the statistical position of coffee had changed sharply in the past six months largely owing to a major revision in consumption estimates.

It cut its forecast for consumption from 93.4m bags in December and it production forecast from 92.4m.

Inco nickel expansion reports 'premature'

By Richard Mooney

Reports that Inco of Canada planned to increase nickel production at its partly-owned Indonesian subsidiary by 120 per cent by the year 2110 were described by the company yesterday as "premature".

The reports said the expansion at PT Inco, in which Inco has a 58 per cent stake, would cost US$1bn and raise output to 220m lb a year from the present 100m.

But in a statement issued yesterday to "clarify" the position Inco said: "the only expansion currently under way and contemplated for the near term involves a previously announced expansion expected to cost in the area of $500m which would increase PT Inco's annual capacity from 100m lb to 150m lb by late June 1998".

"Over the longer term," it said, "PT Inco sees other potential expansions the could increase its annual capacity to about 220m lb. . . but it is premature to talk about timing and the potential cost."

CBoT launches trail-blazing maize yield futures

By Laurie Morse in Chicago

The Chicago Board of Trade today opens a new futures contract that will reflect market expectations of the size of the maize crop in Iowa.

The contract is a limited *experiment by the exchange to* determine if farmers, crop insurers, grain transportation companies and food processors will use an instrument that allows them to hedge the size, rather than the price, of a particular crop. If the concept is viable, the CBoT intends to offer an extensive menu of regional crop yield insurance futures and options for maize, wheat, and soyabeans.

The crop insurance contracts are a twist on the CBOT's traditional grain and soya futures markets, which for more than a century have offered a means for traders to determine the price of a commodity for delivery sometime in the future. Crop size, or yield, is often a major factor in price expectations, but designers of the Iowa Corn [maize] Yield Insurance *futures say there is a need for* a contract that focuses exclusively on crop size.

"Now, with this contract, you can not only hedge price, but also quantity, and quantity times price equals revenue," said Mr Perry Iverson, a product manager for the CBoT. He says that crop re-insurers and any business that deals in large volumes of maize are potential Iowa Corn Yield Insurance futures traders.

Even the contract's promoters admit, however, that the concept is so new that it may take time for the target audience – crop insurers – to understand and use it.

The CBoT has been urged to develop a crop yield derivatives contract for the past year by the US Department of Agriculture and other federal agen*cies. With Congress whittling* away farm subsidy payments as they write the 1995 farm bill, the government is seeking market-based safety nets for agriculture and agribusiness. Exchange officials say the impetus for the yield contracts actually began last year, when the USDA undertook extensive reforms in the federal programme that gives farmers crop insurance, and limited the extent of its protections.

"Significant changes in the crop insurance industry precipitated by the Federal Crop Insurance Act of 1994 has created an even greater need for market-based tools," said Mr Patrick Arbor, the CBoT's chairman. "Over the past several months we have seen overwhelming interest and demand for these contracts."

The Iowa Corn [maize] Yield Insurance futures and options that are launched today will allow traders to bet on what the average harvested yield per acre for the US's biggest cash crop will be this autumn in Iowa, whose farmers are the country's biggest producers of maize.

The futures and options contracts will be settled in US dollars based on the US Department of Agriculture's maize crop production estimates for Iowa in September and January. There will be only two contract months – September and January. Price will be $100 times the estimated yield. Using last year's USDA average Iowa maize yield of 152 bushels an acre, for example, a contract's value at settlement would have been $15,200.

Traders say this spring's wet weather and delayed maize plantings in the US make this an ideal time for the contract launch. "Once the crop is planted, this contract becomes purely a weather contract," says Mr Peter Leavitt, a meteorologist with Weather Services Inc., a forecasting group that specialises in advising agribusinesses. "This is one of just a few futures contracts that pays off on an actual number [the USDA yield figure], not on where buyers and sellers think prices should be."

Indian sugar production set to reach all-time high

By Kunal Bose in Calcutta

India, the world's biggest producer of sugar, is set to finish the current season in September with a record output.

Latest estimates put 1994-95 production at at least 14.5m tonnes, compared with only 9.83m in 1993-94. The previous best season was 1991-92, when 13.4m tonnes was produced.

The industry had already produced 13.7m tonnes of sugar by the middle of May and *many factories are still crush*ing cane. There have been a sharp rises in Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka and Andhra Pradesh. Production is down only in drought-hit Gujarat.

*The bumper crop and a lib*eral release of the commodity by the government (sugar is still a tightly controlled industry in India), have led to a sharp fall in domestic prices. As a result sugar factories are finding it difficult to settle their cane bills. Officials say the mills' outstanding cane dues exceed $112m.

As the government was earlier under the impression that sugar production would be *between 11.5m tonnes and 12m* tonnes, it allowed state agencies to import about 400,000 tonnes. Parliamentary elections will be held early next year and the government fears public resentment would be *caused by a repeat of last* year's very high sugar prices.

But the ruling Congress Party, now faces the wrath of the millions of farmers who are not receiving prompt payment for their cane.

The Indian Sugar Mills Association and the National Federation of Co-operative Sugar Factories have convinced the government that the "crisis spelt by the excess supply of sugar" has to be met by creat*ing a buffer stock of 1m tonnes* to 1.5m tonnes, allowing exports and "rolling over the import contracts to later delivery", if not scrapping them.

The total availability of sugar in the current season *will be at least 17.6m tonnes*, including the carryover stock of 3.1m tonnes. (This, however, does not take into account the 400,000 tonnes that may be imported.) Domestic consumption will not be more than 12.3m tonnes (last year, it was 11.96m tonnes) and as the crushing of cane picks up in the middle of December, the 1995-96 season opening stock should ideally be 3m tonnes.

The balance of 2.3m tonnes *will have to be taken care of* by building a buffer stock and selling sugar abroad. Payment to the mills for the sugar to be put in the buffer stock can be made from the Sugar Development Fund, which has been built *up over the years by way* of a levy on sugar production.

According to industry officials the urgency of sugar exports is the greater because the country is likely to produce 15.5m tonnes during 1995-96. "The area under cane has increased by nearly 13 per cent. A normal monsoon has been forecast for 1995. Therefore, we will have another bumper production of sugar next season," they point out.

India, which resumed the export of the commodity in 1990-91 after a long break, had to import 2m tonnes of sugar last year because of the shortfall in domestic production.

Australian group may take 80% of Argentine potash project

By Nikki Tait in Sydney

CRA, the Australian mining *group, has signed an option* agreement which could see it take an 80 per cent stake in the development of one of the world's biggest potash deposits in Argentina.

The agreement with Potasio Rio Colorado – part of the Argentine Minera mining company – provides for CRA to contribute financial and tech*nical resources to assess the* project over the next 12 to 18 months. If the project is eventually given the go-ahead, the option will allow CRA to acquire an 80 per cent interest. No financial details were provided.

CRA said that the deposit, located near Rio Colorado, contained an identified mineral *resource of 59m tonnes of* recoverable potassium chloride, used mainly as a fertiliser. The identified resource lies an area of about 20 square kilometres. However, CRA said that "elsewhere in the 380 sq km mining lease, sufficient drilling exists to infer a much larger additional resource".

CRA has traditionally *focussed mainly on develop*ments in Australia and the Asia-Pacific region. Earlier this year, however, Mr Leon Davis, its new chief executive, indicated that the group intended to take a broader approach.

"While CRA has made no secret of its focus on Australia, Asia and the Pacific, we have also said that we will look at *the good opportunities wher*ever they may be," commented Mr Ian Gould, head of exploration, in a statement yesterday. The project represented "a significant strengthening of commitment to the Argentine mining industry", he added.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1831-32	1850-52
Previous	1812.5-13.5	1834.5-35.0
High/low	1828	1855/1844
AM Official	1828-28.5	1843-46
Kerb close		1848-9
Open int.	193,208	
Total daily turnover	50,592	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1705-15	1720-30
Previous	1670-80	1680-90
High/low		1740/1720
AM Official	1700-10	1720-25
Kerb close		1715-25
Open int.	2,591	
Total daily turnover	633	

■ LEAD ($ per tonne)

Close	612.5-13.5	625-26
Previous	606-7	618-19
High/low		628/623
AM Official	610.5-11.0	623-23.5
Kerb close		627-8
Open int.	30,600	
Total daily turnover	5,451	

■ NICKEL ($ per tonne)

Close	7760-70	7890-900
Previous	7450-60	7615-20
High/low	7560	7970/7690
AM Official	7575-80	7690-700
Kerb close		7900-20
Open int.	42,830	
Total daily turnover	9,915	

■ TIN ($ per tonne)

Close	6365-75	6290-300
Previous	6065-75	6000-10
High/low		6360/6030
AM Official	6180-200	6110-20
Kerb close		6410-20
Open int.	17,661	
Total daily turnover	9,243	

■ ZINC, special high grade ($ per tonne)

Close	1028-29	1053-55
Previous	1020.5-21.5	1046-47
High/low		1058/1050
AM Official	1024.5-25.0	1050-51
Kerb close		1056-7
Open int.	88,800	
Total daily turnover	12,261	

■ COPPER, grade A ($ per tonne)

Close	2891-92	2868-70
Previous	2851-52	2833-34
High/low	2880/2879	2875/2845
AM Official	2878-79	2854-55
Kerb close		2867-8
Open int.	234,163	
Total daily turnover	84,462	

■ LME AM Official £/$ rate: 1.5825

LME Closing £/$ rate: 1.5927

Spot:1.5908 3 mths:1.5929 6 mths:1.5883 9 mths:1.5833

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Jun	134.90	+2.50	134.90	134.90	1,451	251
Jul	133.90	+2.50	133.80	131.00	24,615	7,428
Aug	137.90	+2.40	-	-	679	12
Sep	130.40	+2.10	130.60	128.30	7,702	866
Oct	128.10	+2.10	128.40	128.40	552	10
Total					41,598	8,974

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	384.10-384.50		
Opening	383.70-384.10		
Morning fix	383.20	241.797	453.134
Afternoon fix	383.50	241.377	451.840
Day's High	384.20-384.60		
Day's Low	382.90-383.30		
Previous close	384.00-384.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.21	6 months	5.01
2 months	5.13	12 months	4.90
3 months	5.12		

Silver Fix	p/troy oz.	US cts equiv.
Spot	332.00	528.25
3 months	336.70	533.10
6 months	341.90	540.05
1 year	352.80	553.55

Gold Coins	$ price	£ equiv.
Krugerrand	385-88	242-44
Maple Leaf	394.60-396.50	
New Sovereign	90-93	56-58

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jun	386.0	+0.9	386.5	383.8	9,067	7,723
Aug	388.3	+0.7	388.9	386.5	68,314	26,630
Oct	391.5	+0.8	391.7	390.3	6,556	52
Dec	394.8	+0.8	395.5	393.0	19,633	386
Feb	397.8	+0.7	-	-	14,805	-
Total					156,802	35,191

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	433.7	+1.1	434.5	429.2	10,950	1,614
Oct	435.5	+1.0	435.5	431.5	6,500	124
Jan	438.5	+1.0	438.5	435.0	1,709	153
Apr	440.8	+0.7	-	-	727	-
Jul	443.2	+0.5	-	-	155	-
Total					20,041	1,891

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	159.15	-0.35	159.15	157.50	295	380
Sep	160.00	-1.40	164.00	159.50	5,960	1,270
Dec	166.00	+2.85	166.00	162.50	410	45
Total			166.50	166.50	6,665	1,700

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

Jun	534.3	+5.6	-	-	2	1
Jul	536.5	+5.5	541.0	523.5	49,381	21,142
Sep	542.0	+5.5	546.0	530.0	14,455	1,080
Dec	549.6	+5.5	554.0	537.0	16,536	750
Jan	551.9	+5.6	-	-	16	-
Mar	557.1	+5.3	560.0	557.1	10,821	38
Total					108,441	23,031

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	18.92	+0.03	18.97	18.51	75,430	43,398
Aug	18.79	-	18.83	18.55	40,071	23,914
Sep	18.66	-0.04	18.71	18.53	31,016	8,433
Oct	18.55	+0.02	18.58	18.42	17,735	5,294
Nov	18.48	-0.06	18.51	18.31	18,182	656
Dec	18.41	-0.09	18.45	18.21	22,818	3,627
Total					330,369	93,868

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	17.61	-0.09	17.75	17.55	53,650	18,482
Aug	17.44	-0.04	17.58	17.39	31,049	10,686
Sep	17.29	-0.07	17.40	17.25	16,400	2,867
Oct	17.16	-0.11	17.27	17.14	15,932	1,273
Nov	17.18	-0.02	17.18	17.18	4,542	327
Dec	17.05	-0.06	17.16	17.01	12,181	387
Total						37,998

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	48.60	+0.15	49.60	48.90	34,205	20,888
Aug	49.90	+0.10	50.00	49.50	14,418	3,141
Sep	50.65	+0.10	50.70	50.30	11,540	1,697
Oct	51.55	+0.15	51.55	51.30	5,453	806
Nov	52.25	-	52.25	52.25	5,012	226
Dec	53.10	-	53.15	52.90	16,119	1,927
Total					112,714	45,869

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	155.00	-1.00	157.75	155.00	21,776	7,713
Jul	152.75	+1.00	154.00	152.25	22,839	8,206
Aug	152.50	+0.75	153.50	152.00	11,391	4,285
Sep	154.00	+0.75	154.75	153.50	7,750	1,674
Oct	156.50	+0.50	157.25	156.25	4,601	295
Dec	158.25	+0.50	159.50	157.75	3,403	1,183
Total					86,084	23,417

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	1.723	+0.005	1.735	1.709	26,934	13,555
Aug	1.786	-0.002	1.804	1.781	19,151	7,384
Sep	1.820	-0.005	1.840	1.818	17,053	2,393
Oct	1.845	-	1.855	1.841	13,064	1,568
Nov	1.925	+0.008	1.930	1.925	8,063	387
Dec	1.995	+0.005	2.000	1.985	14,732	1,623
Total					140,057	29,274

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	59.70	-0.34	60.05	59.25	37,077	31,859
Aug	57.75	-0.29	57.95	57.45	15,009	5,164
Sep	56.45	-0.39	56.60	56.20	5,046	1,153
Oct	54.40	-0.54	56.50	56.50	2,812	667
Nov	53.80	-0.44	-	-	2,242	256
Dec	53.70	-	53.60	53.70	2,935	181
Total					65,211	55,381

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	128.25	+0.50	128.50	127.25	851	75
Sep	108.00	-0.30	108.25	108.00	581	2
Nov	109.60	+0.20	109.65	109.10	3,093	52
Jan	111.50	+0.15	111.50	111.20	1,495	66
Mar	113.00	-0.25	113.00	113.00	535	10
May	114.50	-0.60	115.00	114.50	-	-
Total					6,882	212

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	382/2	+9/0	383/4	375/4	40,396	8,804
Sep	389/0	+9/0	399/4	381/0	15,508	3,815
Dec	400/6	+9/0	402/4	394/4	22,000	3,578
Mar	404/4	+8/0	405/4	399/4	1,554	74
May	386/0	+7/0	389/0	383/4	17	-
Jul	355/0	+4/0	358/0	355/0	237	20
Total					79,712	16,291

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	269/2	+3/2	269/6	268/0	133,166	19,306
Sep	275/2	+3/6	275/6	273/6	42,551	3,490
Dec	279/6	+4/2	280/0	277/0	197,529	28,589
Mar	284/6	+4/0	285/0	282/2	20,804	1,032
May	287/4	+4/4	287/4	285/0	4,149	268
Jul	288/4	+4/0	288/4	286/2	10,573	421
Total					414,927	53,601

■ BARLEY LCE (£ per tonne)

Sep	106.05	-0.10	106.05	106.00	179	13
Nov	107.90	-0.10	-	-	690	-
Jan	110.00	-	110.00	109.75	318	30
Mar	111.50	-0.75	111.50	111.50	106	10
May	114.25	-	-	-	20	-
Total					1,313	53

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	588/2	+7/4	590/0	584/0	55,705	18,958
Aug	593/2	+7/2	595/0	590/0	17,312	1,113
Sep	598/4	7/6	600/4	594/4	8,587	884
Nov	607/2	+7/6	608/6	603/0	49,362	10,090
Jan	615/0	+7/6	616/0	611/4	4,410	330
Mar	622/0	+8/0	622/4	618/4	1,273	93
Total					138,473	31,613

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	26.06	+0.30	26.20	25.85	26,699	8,335
Aug	25.99	+0.26	26.14	25.82	11,446	2,851
Sep	25.95	+0.28	26.08	25.80	8,880	1,264
Oct	25.89	+0.22	26.04	25.80	5,942	323
Dec	25.87	+0.21	26.02	25.78	16,822	3,390
Jan	25.87	+0.21	26.00	25.75	1,027	234
Total					72,304	17,424

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	173.3	+3.1	173.7	171.0	38,249	14,789
Aug	175.3	+3.5	175.6	173.0	12,048	2,432
Sep	177.2	+3.5	177.5	175.0	9,688	1,137
Oct	179.1	+3.8	179.2	177.5	9,698	830
Dec	182.3	+3.5	182.6	180.0	15,301	2,294
Jan	183.2	+3.4	183.7	181.5	1,313	90
Total					86,689q	21,624

■ POTATOES LCE (£/tonne)

Jan	307.5	-	-	-	-	-
Nov	97.5	-	-	-	-	-
Mar	120.0	-	-	-	-	-
Apr	117.0	-	117.0	116.5	476	31
Total					480	31

■ FREIGHT (BIFFEX) LCE ($10/index point)

Jun	1910	-15	1915	1909	449	-
Jul	1775	-45	1820	1770	614	66
Aug	1743	-	1770	1765	1,041	130
Oct	1760	-60	1800	1760	1,339	118
Jan	1725	-40	1760	1725	495	116
Apr	1760	-40	1775	1760	15	16
Total					3,514	466

	Close	Prev
BFI	2087	2099

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	970	+5	975	968	28,725	3,937
Sep	989	+8	992	986	23,255	2,086
Dec	1009	+8	1010	1007	21,248	806
Mar	1029	+7	1031	1026	28,502	774
May	1042	+8	1042	1042	5,426	35
Jul	1054	-	-	-	2,309	-
Total					119,260	7,639

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1360	-2	1369	1355	23,580	13,487
Sep	1382	+1	1387	1375	21,321	3,850
Dec	1417	-1	1422	1411	13,502	908
Mar	1449	-1	1450	1447	6,077	78
May	1464	-1	-	-	5,503	-
Jul	1484	-1	-	-	2,955	-
Total					77,666	18,333

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
May 31		
Daily	928.26	915.11

■ COFFEE LCE ($/tonne)

Jul	2877	+64	2894	2816	17,146	2,714
Sep	2829	+46	2855	2786	13,965	2,557
Nov	2838	+55	2841	2787	2,593	148
Jan	2833	+53	2838	2838	506	4
Mar	2829	+54	-	-	422	-
May	2818	-	-	-	-	-
Total					34,636	5,438

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	158.65	+4.80	159.75	154.75	18,265	5,960
Sep	161.50	+4.70	162.00	157.80	11,244	1,893
Dec	163.15	+4.85	164.00	160.25	5,114	108
Mar	166.15	+4.85	166.50	164.50	2,244	62
May	167.00	+4.65	167.00	166.00	186	32
Jul	168.05	+4.70	-	-	28	12
Total					37,107	8,067

■ COFFEE (ICO) (US cents/pound)

	Price	Prev. day
May 31		
Comp. daily	146.18	145.48
15 day average	153.16	154.28

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jul	13.37	+0.40	-	-	2,360	-
Oct	10.50	-	-	-	-	-
Jan	13.25	-	-	-	2,000	-
Mar	10.10	-	-	-	-	-
Total					4,360	-

■ WHITE SUGAR LCE ($/tonne)

Aug	354.3	+4.0	358.0	348.0	11,534	1,825
Oct	300.3	-0.7	305.0	298.7	5,996	712
Dec	287.3	-1.4	291.5	285.0	2,683	104
Mar	284.5	-2.5	287.8	285.5	2,449	17
May	286.0	-2.0	-	-	372	-
Aug	287.5	-1.7	-	-	199	-
Total					23,336	2,658

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	11.61	-0.11	11.88	11.45	48,455	19,955
Oct	10.21	-0.08	10.35	10.12	37,561	8,687
Mar	10.00	-0.07	10.07	9.96	21,968	3,483
May	9.98	-0.09	10.08	9.98	7,175	555
Jul	9.90	-0.15	10.04	9.90	8,203	327
Oct	9.70	-0.21	9.88	9.70	1,827	330
Total					125,595	33,440

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	112.36	+2.60	112.75	108.80	15,906	1,982
Oct	85.20	+1.35	85.65	82.35	9,453	1,959
Dec	79.23	+1.60	79.55	77.70	30,578	11,763
Mar	80.40	+1.77	80.60	79.02	10,548	1,756
May	80.90	+1.65	81.40	79.65	3,730	532
Jul	81.10	+1.37	81.40	80.30	1,829	564
Total					72,591	18,592

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	104.95	-3.75	107.75	104.75	13,214	677
Sep	109.50	-3.10	111.50	109.25	8,227	420
Nov	108.00	-2.25	109.90	108.00	2,110	198
Jan	109.95	-1.75	110.00	109.50	2,673	235
Mar	112.45	-1.50	112.50	111.85	798	48
May	115.45	-0.55	-	-	426	7
Total					26,893	1,686

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	61.950	+0.925	62.000	61.075	20,278	6,102
Aug	60.575	+0.875	60.750	59.800	17,509	4,089
Oct	62.500	+0.450	62.775	62.150	13,258	1,706
Dec	63.450	+0.200	63.625	63.275	5,132	621
Feb	64.025	+0.075	64.300	63.975	3,477	222
Apr	64.950	+0.100	65.175	64.825	1,853	66
Total					61,582	12,837

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Jun	43.775	-0.150	44.350	43.650	5,097	2,173
Aug	43.775	-0.200	44.350	43.725	7,087	3,053
Oct	41.375	-0.300	41.850	41.300	6,039	1,342
Dec	42.600	-0.150	42.875	42.550	5,056	345
Feb	43.425	-	43.800	43.425	1,947	382
Apr	42.850	-0.100	43.000	42.850	859	78
Total					26,729	7,511

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	35.725	-1.150	37.700	35.550	4,402	1,274
Aug	34.750	-1.050	36.600	34.700	2,435	820
Feb	49.400	-0.425	50.400	49.000	298	89
Mar	48.200	-0.650	48.200	48.200	32	3
May	49.100	-0.700	49.100	49.100	4	1
Total					7,170	2,176

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1700	-	212	-	77
1800	131	158	76	119
1900	69	115	127	172
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
2800	119	98	58	125
2900	69	61	107	185
3000	37	-	172	-
■ COFFEE LCE	Jul	Sep	Jul	Sep
3050	43	169	218	390
3100	33	155	256	426
3150	25	143	298	464
■ COCOA LCE	Sep	Dec	Sep	Dec
950	68	100	29	41
975	54	86	40	52
1000	42	73	53	64
■ BRENT CRUDE IPE	Jul	Oct	Jul	Oct
1750	33	53	23	85
1800	9	40	54	119
1850	2	23	96	153

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jul)

		+or-
Dubai	$16.61-6.88z	+0.095
Brent Blend (dated)	$17.68-7.70	+0.210
Brent Blend (Jul)	$17.65-7.67z	+0.180
W.T.I. (1pm est)	$18.86-8.88z	+0.240

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$200-202	
Gas Oil	$157-159	-1.5
Heavy Fuel Oil	$94-96	-2.5
Naphtha	$191-193	
Jet fuel	$170-173	-1.5
Diesel	$158-160	-1.5

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$384.30	+0.15
Silver (per troy oz)♣	530.50c	
Platinum (per troy oz.)	$430.25	-3.85
Palladium (per troy oz.)	$158.25	-3.75
Copper (US prod.)	Unq.	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	14.60m	+0.07
Tin (New York)	310.50c	+17.00
Cattle (live weight)†	123.07p	+1.31*
Sheep (live weight)†♠	118.23p	+6.07*
Pigs (live weight)†	94.26p	-1.32*
Lon. day sugar (raw)	$351.3	+11.3
Lon. day sugar (wte)	$401.0	+15.0
Tate & Lyle export	£334.0	+9.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£147.0	
Wheat (US Dark North)	Unq.	
Rubber (Jul)♥	110.00p	
Rubber (Aug)♥	110.00p	
Rubber (KL RSS No1)	404.0m	-2.5
Coconut Oil (Phil)§	$640.0y	+5.0
Palm Oil (Malay.)§	$630.0	
Copra (Phil)§	416.0u	+4.0
Soyabeans (US)	157.0w	
Cotton Outlook'B' Index	107.85	-2.00
Wooltops (64s Super)	522p	-3

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. u May/Jun w Jun. z Jul. y Jun/Jul. q May ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

Wool
Auction prices were erratic in Australia this week. The overall market was affected by heavy withdrawals and concentrated demand for limited offerings of some middle micron categories. The indicator closed at 823 cents a kg., from 821 a week before. New Zealand eased more sharply with farmers withdrawing 43% of the offerings at Napier, mainly of carpet wool. The market indicator there was 40 cents lower than a week ago at 549 cents. The static or easier wool market is being related to end-of-season factors, the approach of holidays, and continued price resistance in the main consuming countries. Doubts about economic recovery enhance the uncertain tone.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one *day in arrears.*

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 1	May 31	month ago	year ago
2306.1	2995.4	2331.4	1987.8

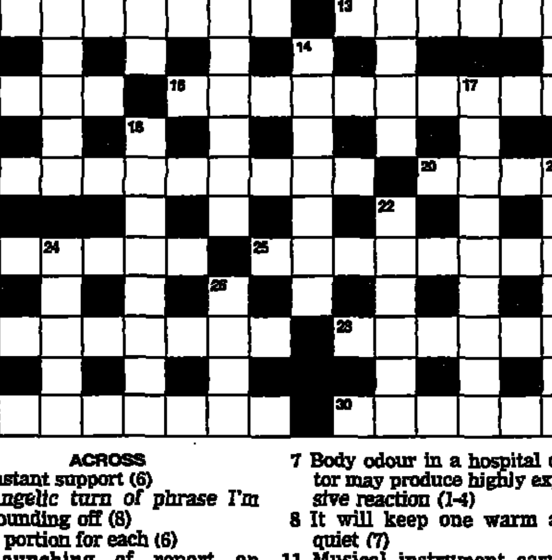
■ CRB Futures (Base: 1967=100)

May 31	May 30	month ago	year ago
232.72	232.76	236.68	233.84

JOTTER PAD

CROSSWORD

No.8,777 Set by DANTE



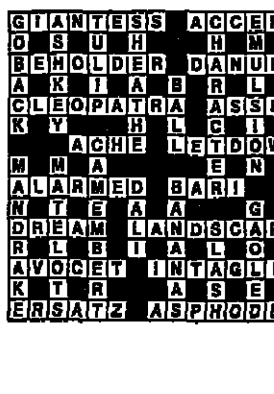
ACROSS

1 Instant support (6)
4 *Angelic turn of phrase I'm* rounding off (8)
9 A portion for each (6)
10 Launching of report on cricket side (5,3)
12 Remove portable meals (4,4)
13 Make ball go round like a sphere (6)
15 Legal tender in the bar (4)
16 Entrant in race out to crop time (10)
19 Much better, so enjoying greater popularity (4,4,2)
20 Burden of love to star making a comeback (4)
23 Withdraw a direction to surrender (6)
25 Transporting system invented by a one-track mind? (8)
27 Hint for suffering ennui – nod off (8)
28 The case for the receiver (6)
29 Threaten to put a stop to bad temper (8)
30 Centre rebuilt in modern style (6)

DOWN

1 Fight and beat a tough guy (7)
2 Sportsman who could be out for a run (9)
3 Drink specially made for the Olympics (6)
5 They may be found in a creel, squirming (4)
6 Sheridan's captain bales out when in trouble (8)
7 Body odour in a hospital doctor may produce highly explosive reaction (1-4)
8 It will keep one warm and quiet (7)
11 Musical instrument carried by soldiers (7)
14 Almost tropical variety of fruit (7)
17 Tease by putting salt in tea (9)
18 Stick or bond with glue somehow (8)
19 Great service I have rendered (7)
21 Obvious way to get round the foreigner (7)
22 Bill is alone without comfort (6)
24 Punished for disrupting a dance? (5)
26 Turn over at leisure (4)

Solution 8,776



INTERNATIONAL CAPITAL MARKETS

Three dollar FRNs dominate day

By Conner Middelmann

The market was dominated yesterday by three US dollar denominated floating-rate note issues totalling $650m.

Citicorp issued $250m of FRNs via Lehman Brothers, paying a coupon of three-month Libor plus 15 basis points, and yielding 15¼ basis points over Libor at the 99.99 re-offer price, though that spread widened to around 18 basis points over.

INTERNATIONAL BONDS

Cariverona, Italy's second-largest savings bank, issued $200m of floaters via Swiss Bank Corporation, paying a coupon of Libor plus $\frac{3}{16}$ and yielding 19.2 basis points at the 99.98 re-offer; that spread widened to around 23 basis points.

Lastly, Bankers Trust New York launched $200m of five-year FRNs paying a coupon of 20 basis points over three-month Libor; at the re-offer price of 99.91 the paper yields 22 basis points over Libor, but lead manager PaineWebber said it was offered at 24 basis points late in the day.

Some dealers expressed caution over Moody's recent decision to place Bankers Trust on watchlist with negative implications. "I don't think the pricing is giving investors enough compensation for a possible downgrade," said one.

But according to Mr David Munves, head of credit research at PaineWebber, the outlook for Bankers Trust is improving, helped by stringent cost cutting plans. "They are a long-term player, highly diversified and have a lot of capital. But [they operate in] a changing business and the watch action reflects some concerns on how they'll adapt to the changing nature of the derivatives business in the US."

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %.	Spread bp	Book runner
US DOLLARS							
Citicorp(a)‡	250	(a1)	99.995R	Sep.2000	0.175R	-	Lehman Brothers Intl.
Bankers Trust NY Corp.(b)‡	200	(b1)	99.915R	Jun.2000	0.175R	-	PaineWebber Intl.(UK)
Cariverona‡	200	(c)	99.98R	Jul.2000	0.20R	-	Swiss Bank Corp.
Banco Itamarati, Cayman(d)	50	10.00#	99.972R	Jun.1996	0.65R	+425(T-bill)	JP Morgan Securities
YEN							
Nordic Investment Bank★	30bn	2.60	100.25R	Jun.2002	0.30R	-	LTCB International
D-MARKS							
DSL Finance	500	6.00	99.90R	Jun.2000	0.25R	+28(6½%-00)	Merrill Lynch Bank
GUILDERS							
KfW International Finance	250	6.625	99.725R	Jul.2003	0.30R	+17½(5½%-03)	Rabobank Nederland
LUXEMBOURG FRANCS							
Oresundsforbindelsen(e)	2bn	7.00	102.75	Sep.2002	1.875	-	BIL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable on coupon dates from Jun.98 at par. a1) 3-mth Libor +15bp. b) Callable on coupon dates from Jun.98 at par. b1) 3-mth Libor +20bp.. c) 3-mth Libor +$\frac{3}{16}$%. d) Parent bank launched separate $20m deal with identical terms. e) Long 1st coupon.

All three issues were said to have met with strong demand from financial institutions, especially in Japan.

Strong demand for dollar floaters means the threat of oversupply in the sector is slim, said another dealer. "We are not building up much inventory – this is a very liquid market and, if anything, our problem is to find enough product to fill the demand."

Germany's DSL Finance, the financing subsidiary of government-owned DSL Bank, issued DM500m of five-year 6 per cent bonds. Like three other five-year deals issued this week, it was largely arbitrage-driven, although lead manager Merrill Lynch reported strong demand, especially in east Asia. The deal was sold through a selling group, with Merrill expected to place more than 80 per cent of the issue.

Australia strongest performer in May

By Conner Middelmann

All government bond markets posted positive total returns in May, as investor expectations of the direction of interest rates shifted in response to evidence of an economic slowdown.

According to J.P. Morgan's monthly government bond index monitor, Australia was the strongest performer in May with a local currency return of 4.74 per cent.

The Japanese market posted the month's second-strongest performance, returning 4.07 per cent in local currency terms. Domestic investors supported the market as a strong yen and bearish economic news led them away from risks in the stock market and foreign assets, J.P. Morgan noted.

Japan is the leader for the year to date, having posted a total return of 12.3 per cent in the first five months of the year.

In the UK, a downwardly revised first-quarter gross domestic product estimate caused investors who had been expecting a base rate rise to expect a holding pattern in interest rates. The UK index returned 3.73 per cent in local currency terms. Ireland, which often tracks the UK market, had a return of 3.52 per cent.

The US bond market posted a return of 3.72 per cent as investors began to consider the possibility of rate cuts in response to data indicating slower economic growth. The US 30-year bond yield fell by 67 basis points in May.

Belgium and the Netherlands continued to outperform the German bond market in May, with local currency returns of 3.43 per cent and 2.81 per cent; Germany was up 2.43 per cent.

Isma launches settlement code

By Richard Lapper in Lisbon

Moves to streamline the reporting and settlements of trades in the eurobond market were announced yesterday at the annual conference of the International Securities Market Association in Lisbon.

The measures coincided with the long expected introduction of an industry agreement – known as T+3 – to settle all trades in eurobond convertibles and some other international securities within three business days, rather than seven calender days as at present.

The accord, agreed at last year's Isma conference, brings practices in the euromarket closer to those in principal government bond markets – where most trades are settled either within one or two days – and should help reduce so-called "settlement risk".

Mr John Langton, chief executive of Isma, said the organisation was "confident that the shortened settlement period will reduce systemic market and counter-party risk without damaging liquidity".

The measures largely concern Trax, the cross-border trade confirmation and risk management system introduced by Isma in 1989. Trax will now include additional settlement information – including details of net settlement amount, principal and counterparty clearer - which can be matched at the same time as basic trade details. The changes follow an Isma survey which found that a high percentage of failed trades were due to discrepancies in settlement details.

Isma said that delays arising from such discrepancies will become critical as the market moves to accelerate settlement. "The enhancement of Trax will be fundamental in ensuring that any potential problem trades are quickly identified and resolved", said Mr Roy Lambert, managing director.

In addition, together with Euroclear (the European clearing house owned by a consortium of banks), Isma announced measures to connect Trax to Euroclear's Euclid 90 computer system.

The agreement will enable details of trades entered into Trax's computer software to be transferred automatically to the Euclid software. Users who have traditionally entered information manually into both systems will now only have to input details of trades once, reducing the risk of errors which could cause trades to fail.

However, the link does not extend to Cedel, Euroclear's rival clearing house which is also owned by a consortium of banks. Cedel has opted not to participate.

Mr Langton said many of the obstacles which had originally inhibited the introduction of a shorter settlement period had now been overcome. In particular, he pointed to credit lines being made available to traders by both Euroclear and Cedel, and to the worldwide growth of repo markets, which allow traders to borrow and lend securities.

He also downplayed potential opposition to shorter settlement from small Benelux-based brokerages who deal with retail investors. Isma had initially favoured the introduction of two-day settlement but had opted for the longer period in order to accommodate potential problems arising from trading across time zones and in more than 40 different currencies.

However, he predicted that the settlement period would gradually be reduced, forecasting the adoption of a T+2 "within the next six to seven years . . I don't believe that T+3 is sustainable in the years to come and it will be reduced".

Manufacturing figures spark US upturn

By Lisa Bransten in New York and Graham Bowley in London

Figures suggesting a decline in manufacturing activity helped US Treasuries recover from early losses yesterday morning. By midday the benchmark 30-year Treasury was up $\frac{3}{8}$ at 112$\frac{28}{32}$ to yield 6.620 per cent. At the short end, the two-year note rose $\frac{1}{8}$ at 100$\frac{23}{32}$ to yield 5.755 per cent.

GOVERNMENT BONDS

Treasuries started the day mostly lower, on the heels of bearish sessions in Tokyo and London, but rebounded after the release of figures from the National Association of Purchasing Management. The NAPM put its index of business activity at 46.1 per cent for May – its lowest since May 1991. Anything below 50 per cent is considered a sign of decreasing factory activity.

Investors paid increasing attention to economic data this week, as they looked for clues about what today's employment figures would tell. On Wednesday, the market rally stumbled because a downward revision in the inventory component of the gross domestic product data suggested the second quarter might not be as weak as many had come to expect.

Other figures released yesterday were mixed, but they had less impact on the market because they were April data. Factory orders fell 1.9 per cent in April. But while it was the third straight monthly drop, analysts had forecast a decline closer to 2.2 per cent.

Figures on April personal income and consumption both showed 0.3 per cent increases, in line with expectations.

Bonds drew some support from a stronger dollar, which continued to gain after Thursday's intervention by G10 central banks. Near midday the US currency was changing hands for Y85.03 and DM1.4195, compared with Y84.50 and DM1.4143 late Wednesday.

■ US Treasuries led European markets sharply higher yesterday after US data pointed to a continued slowdown in the US economy.

All bond markets rallied, with shorter-dated bonds showing particular strength as optimism spread that the US authorities may begin to cut interest rates soon.

US jobless figures, at their highest level since January 1994, weak factory goods data, and a low purchasing managers' index were all taken as evidence of a slowing economy.

"This is still very much a US phenomenon, although it is underpinned by signs, in Germany and the UK, of a European slowdown," said Mr George Magnus, international economist at S.G. Warburg in London.

■ German government bonds rallied, with the yield on the 10-year benchmark bund falling to 6.61 per cent.

The Bundesbank left short-term interest rates unchanged at its regular council meeting in spite of intense speculation that the central bank might move to relax monetary policy.

Nevertheless, traders said they still expected German interest rates to fall once again in the current economic cycle.

The June bund futures contract on Liffe was 0.33 point higher at 95.53 in late trading.

■ The UK government bond market rose in line with Treasuries. A weak UK purchasing managers' index, pointing to weaker activity, provided a domestic push to the market. In late trading the long gilt future on Liffe was up 1$\frac{1}{16}$ point at 108$\frac{3}{16}$.

■ The Italian market moved ahead, with the June futures contract on Liffe up 0.74 point at 100.91 in late trading.

The Spanish market rallied, in spite of rumours that the Bank of Spain might lift its repo rate today.

The Belgian government bond market rallied particularly strongly, with the 10-year yield spread over bunds falling to 70 basis points.

"It looks very likely that we will see a move downwards in Belgian rates soon," said Mr Keith Edmonds at IBJ International in London.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	90.4600	–	8.95	8.77	9.64
Austria		7.000	05/05	100.2600	–0.320	6.96	7.01	7.39
Belgium		6.500	03/05	94.4200	+0.370	7.31	7.38	7.91
Canada *		9.000	12/04	106.0500	+0.500	8.07	8.20	8.62
Denmark		7.000	12/04	92.7800	+0.060	8.11	8.06	8.73
France	BTAN	7.750	04/00	102.9300	+0.060	6.97	6.99	7.38
	OAT	7.500	04/05	100.5900	+0.290	7.41	7.41	7.78
Germany Bund		6.875	05/05	101.8900	+0.300	6.61	6.71	7.09
Ireland		6.250	10/04	86.8500	+0.200	8.32	8.31	8.83
Italy		9.500	01/05	86.6900	+0.540	11.66†	11.93	13.10
Japan	No 119	4.800	06/99	110.2280	+0.078	2.06	2.52	2.59
	No 174	4.600	09/04	113.2640	–0.590	2.80	2.97	3.37
Netherlands		7.000	06/05	101.7600	+0.160	6.75	6.79	7.16
Portugal		11.875	02/05	99.5800	–0.270	11.93	11.79	12.28
Spain		10.000	02/05	91.5300	+0.590	11.45	11.28	12.04
Sweden		6.000	02/05	73.3010	+0.100	10.52	10.70	11.57
UK Gilts		6.000	08/99	94–21	+17/32	7.52	7.58	8.21
		8.500	12/05	104–08	+5/32	7.90	7.87	8.35
		9.000	10/08	109–08	+25/32	7.87	7.93	8.35
US Treasury *		6.500	05/05	102–00	+22/32	6.23	6.39	7.02
		7.625	02/25	112–28	+28/32	6.62	6.74	7.34
ECU (French Govt)		6.000	04/04	89.2800	+0.280	7.71	7.77	8.14

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
		One month	5.59	Two year	5.87
Prime rate	9	Two month	6.13	Three year	5.95
Broker loan rate	6½	Three month	5.80	Five year	6.08
Fed.funds	6	Six month	5.82	10-year	6.30
Fed.funds at intervention	-	One year	5.79	30-year	6.68

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	115.82	115.86	+0.12	115.96	115.48	166,081	110,051
Sep	115.46	115.46	+0.08	115.56	115.10	21,992	42,891
Dec	115.26	115.26	+0.08	115.26	115.22	82	2,126

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Sep	Calls Dec	Puts Jul	Puts Sep	Puts Dec
114	1.64	-	-	0.21	0.80	-
115	0.95	1.53	-	0.48	1.08	-
116	0.46	1.01	-	-	1.60	-
117	0.19	0.60	-	1.73	-	-
118	0.05	0.37	-	-	-	-

Est. vol. total, Calls 15,730 Puts 8,146 . Previous day's open int., Calls 132,845 Puts 121,044.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.29	95.39	+0.19	95.54	95.02	156746	104441
Sep	94.84	94.91	+0.21	95.02	94.55	37246	76824

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9450	0.73	0.98	1.15	1.22	0.32	0.57	0.74	1.36
9500	0.45	0.71	0.88	1.01	0.54	0.80	0.97	1.65
9550	0.26	0.50	0.67	0.83	0.85	1.09	1.26	1.97

Est. vol. total, Calls 9501 Puts 9404. Previous day's open int., Calls 121328 Puts 90895

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.17	100.75	+0.58	100.97	100.03	43798	31616
Sep	99.90	100.34	+0.59	100.57	99.70	8074	10346

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10000	2.25	2.74	1.91	3.40
10050	1.98	2.52	2.14	3.68
10100	1.73	2.31	2.39	3.97

Est. vol. total, Calls 3182 Puts 943. Previous day's open int., Calls 17186 Puts 12011

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	85.50	86.22	+0.51	86.32	85.33	66,433	45,670
Sep	85.45	86.10	+0.60	85.92	85.20	862	1,982

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107-21	108-09	+0-25	108-18	107-16	41593	44697
Sep	107-08	107-26	+0-24	108-02	107-01	26022	97102

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
107	1-23	1-49	2-03	2-31	0-35	0-61	1-15	2-09
108	0-50	1-13	1-32	2-00	0-62	1-25	1-44	2-42
109	0-25	0-50	1-03	1-38	1-37	1-62	2-15	3-16

Est. vol. total, Calls 621 Puts 934. Previous day's open int., Calls 26377 Puts 27894

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	86.12	86.30	+0.26	86.32	86.00	2,327	8,317
Sep	86.00	86.16	+0.28	86.16	86.00	23	404

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	113-00	112-26	-0-07	113-11	112-23	83,709	231,296
Sep	112-22	112-15	-0-06	112-31	112-11	338,376	162,500
Dec	112-11	112-00	-	112-14	111-29	1,696	10,286

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	120.96			121.10	120.56	967	0
Sep	119.88			119.99	119.40	5186	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Jun 1	Day's change %	Wed May 31	Accrued interest	xd adj. ytd
1 Up to 5 years (23)	122.04	+0.23	121.77	2.23	4.27
2 5-15 years (21)	146.45	+0.55	145.65	1.95	5.44
3 Over 15 years (9)	166.16	+0.70	165.01	2.96	5.03
4 Irredeemables (6)	188.43	+0.25	188.19	1.02	6.36
5 All stocks (59)	142.60	+0.47	141.93	2.24	4.99
Index-linked					
6 Up to 5 years (2)	195.56	+0.13	195.31	0.65	2.57
7 Over 5 years (11)	186.82	+0.18	186.48	1.27	1.73
8 All stocks (13)	186.85	+0.18	186.52	1.23	1.81

	Low coupon yield Jun 1	May 31	Yr. ago	Medium coupon yield Jun 1	May 31	Yr. ago	High coupon yield Jun 1	May 31	Yr. ago
5 yrs	7.65	7.74	8.34	7.66	7.75	8.51	7.71	7.81	8.65
15 yrs	7.89	7.96	8.49	7.89	7.97	8.63	8.03	8.10	8.90
20 yrs	7.90	7.96	8.46	7.90	7.98	8.63	8.01	8.07	8.73
Irred.†	7.97	7.99	8.60						

	Inflation 5% Jun 1	May 31	Yr. ago	Inflation 10% Jun 1	May 31	Yr. ago
Up to 5 yrs	3.09	3.16	3.84	1.56	1.61	2.86
Over 5 yrs	3.55	3.56	3.87	3.36	3.37	3.68

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 1	May 31	May 30	May 26	May 25	Yr ago	High*	Low*
Govt. Secs. (UK)	94.61	94.31	94.39	94.22	94.60	92.09	94.61	90.22
Fixed Interest	113.55	113.68	113.59	113.77	113.88	109.12	113.88	108.77

* for 1995. Government Securities high since compilation. 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	May 31	May 30	May 26	May 25	May 24
Gilt Edged bargains	109.4	109.3	104.9	228.1	90.9
5-day average	128.5	127.2	121.1	116.0	87.2

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 1

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	98⅛	98⅜	+⅜	6.81
African Dev Bk 7⅝ 23	500	99¼	100¼	+⅝	7.39
Alberta Province 7⅝ 98	1000	104	104¼	+¼	6.27
Austria 8½ 00	400	108⅝	108⅞	+⅜	6.29
United Kingdom 7¼ 97	5500	104¼	104½	–⅛	5.18
Volkswagen Intl Fin 7 03	1000	99⅝	100⅛	–⅛	7.06
World Bank 0 15	2000	24	24⅜	–⅛	7.19
World Bank 5⅞ 03	3000	94⅛	94½	–⅛	6.76
World Bank 8¾ 00	1250	112⅜	113½	–½	5.76
Abbey Natl Treasury 8 03 £	1000	97⅛	97⅝	+⅜	8.46
Alliance Leics 11⅜ 97 £	100	108⅛	108⅝	+⅛	7.76
British Land 8⅞ 23 £	150	94¼	94¾	+¼	9.88
Denmark 6¼ 98 £	800	97⅛	97⅜	+¼	7.77
EIB 8 03 £	1000	99	99¼	+½	8.17
[illegible]					

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	1995 High	1995 Low
Shorts" (Lives up to Five Years)							
Exch 10¼pc 1995		10.19	6.34	100$\frac{9}{16}$	—	101⅞	100$\frac{9}{16}$
Treas 12¾pc 1995‡‡		12.41	6.44	102¾	—	104⅞	102¾
14pc 1996		13.36	6.46	104⅝	—	106⅞	104⅝
15¼pc 1996‡‡		14.17	6.52	107⅜	—	109⅝	107½
Exch 13¼pc 1996‡‡		12.50	6.64	105$\frac{15}{16}$	—	107¼	105$\frac{13}{16}$
Conversion 10pc 1996		9.80	6.81	104$\frac{1}{16}$	+$\frac{1}{16}$	104$\frac{1}{16}$	103$\frac{1}{16}$
Treas 13¼pc 1997‡‡		12.11	7.01	109⅜	+$\frac{1}{16}$	109⅜	108⅜
Exch 10½pc 1997		9.98	7.03	105$\frac{3}{16}$	+$\frac{1}{16}$	105$\frac{13}{16}$	104$\frac{1}{16}$
Treas Cnv 7pc 1997‡‡		7.07	7.04	98$\frac{15}{16}$	—	98$\frac{15}{16}$	97⅛
[illegible]							
Treas 6¼pc 2004‡‡		7.29	7.85	92$\frac{9}{16}$	+$\frac{9}{16}$	92$\frac{15}{16}$	86$\frac{1}{16}$
Conv 9½pc 2005		8.56	7.88	110$\frac{15}{16}$	+$\frac{13}{16}$	110$\frac{15}{16}$	103⅜
Treas 12½pc 2003-5		9.79	7.92	127$\frac{11}{16}$	+$\frac{13}{16}$	127$\frac{11}{16}$	119$\frac{13}{16}$
Treas 8½pc 2005‡‡		8.11	7.88	104$\frac{13}{16}$	+$\frac{13}{16}$	104$\frac{13}{16}$	97⅝
7¾pc 2006‡‡		7.83	7.89	98$\frac{31}{32}$	+⅝	99$\frac{1}{16}$	92⅛
8pc 2002-6‡‡		7.97	7.86	100$\frac{15}{16}$	+⅝	100$\frac{15}{16}$	93⅛
Treas 11¾pc 2003-7		9.67	7.91	121½	+$\frac{13}{16}$	121½	113$\frac{13}{16}$
Treas 8½pc 2007 ‡‡		8.11	7.86	104⅛	+$\frac{11}{16}$	104⅞	97$\frac{11}{16}$
[illegible]							
Index-Linked	(b)						
2pc '96	(67.9)	1.16	3.14	210$\frac{11}{16}$	+$\frac{1}{16}$	210$\frac{11}{16}$	201$\frac{1}{16}$
4⅝pc '98‡‡	(135.6)	2.03	3.00	111⅞	+$\frac{1}{16}$	111⅝	108$\frac{1}{16}$
2½pc '01	(78.3)	2.92	3.38	175$\frac{11}{16}$	+$\frac{1}{16}$	176$\frac{1}{16}$	165$\frac{13}{16}$
2½pc '03	(78.8)	3.09	3.45	172	+$\frac{1}{16}$	172$\frac{13}{16}$	161$\frac{11}{16}$
4⅜pc '04‡‡	(135.6)	3.10	3.43	114$\frac{15}{16}$	+$\frac{1}{16}$	115$\frac{1}{16}$	108$\frac{1}{16}$
2pc '06	(69.5)	3.23	3.50	180$\frac{1}{16}$	+$\frac{1}{16}$	181$\frac{1}{16}$	169$\frac{1}{16}$
2½pc '09	(78.8)	3.28	3.51	163$\frac{15}{16}$	+$\frac{1}{16}$	164$\frac{1}{16}$	152$\frac{1}{16}$
2½pc '11	(74.6)	3.34	3.54	169½	+¼	170$\frac{11}{16}$	157$\frac{1}{16}$
2½pc '13	(89.2)	3.37	3.55	139$\frac{15}{16}$	+$\frac{1}{16}$	140⅛	129$\frac{1}{16}$
[illegible]							

Other Fixed Interest [illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

CURRENCIES AND MONEY

MARKETS REPORT

Dollar fails to sustain post-intervention rally

The dollar's impressive post-intervention rally proved short-lived yesterday as concern about an economic slowdown in the US reasserted itself, *writes Philip Gawith*.

The US currency's failure to sustain the five pfennig rally, from around DM1.3850 to DM1.4370, also reflected the market's continued unwillingness to believe that the conditions are in place for a sustained rally.

The dollar finished in London at DM1.413 from DM1.4233 on Wednesday, and at Y84.645 and from Y85.1. It lost over two pfennigs during New York trading following the release of a weaker than expected purchasing managers report.

The other large move of the day came from the Belgian franc which broke out of a trading range that dates back to the beginning of last year. It closed at BFr20.48 against the D-Mark, from BFr20.54. The move appeared to be technically driven, especially once the franc breached the BFr20.52 level, rather than a reflection of any new developments.

Elsewhere, the Bundesbank council left interest rates unchanged. In Britain, signs of weakness in the purchasing managers index prompted a rally in interest rate markets, with the September short sterling contract closing 13 basis points firmer at 93.10.

Sterling had quite a good day, finishing firmer against both the D-Mark and dollar. It closed at DM2.2645 from DM2.2447, and at $1.5911 from $1.5886.

■ *The dollar had a bright start* to the day, rising around 1½ pfennigs in the first ten minutes of trading. Rumours that German funds were buying stimulated further dollar purchases, with the market reasoning that the funds had some insight into the likely outcome of the Bundesbank council meeting.

In fact, the brevity of the meeting suggested the agenda was devoid of controversy. The subsequent retreat in the dollar was not so much the result of disappointment at Bundesbank inactivity as a response to rumour and statistics.

The rumours centred around an influential industry newsletter which reported that the Bundesbank had been reluctant participants in the intervention. It also suggested that a rising dollar would serve as an obstacle to a cut in German interest rates.

Ms Alison Cottrell, analyst at Paine Webber in London, said that neither of these contentions carried much weight. As to the Bundesbank's stance, she noted: "I'm sure that is 100 per cent accurate. They only ever intervene reluctantly." But she also added that the Bundesbank only intervened when it stood to make money.

Ms Cottrell also disputed that a firmer dollar would get in the way of a rate cut, pointing out that a rally from DM1.38 to DM1.42 would hardly strike fear into the Bundesbank's heart. "It is also easier to cut rates into a slightly firmer or stable dollar than a crashing dollar, because then it can be presented on purely domestic grounds."

Intervention had, however, removed the prospect of any German rate cut yesterday, said Ms Cottrell. She said it would be anethema to the Bundesbank to be seen to be cutting rates as part of a co-ordinated plan to help the dollar.

Sentiment was also knocked by the weak NAPM report, described by Mr Tony Norfield, UK treasury economist at ABN AMRO, as being in "hard landing territory". The dollar has recently tended to weaken when confronted with economic data showing a slowdown in the economy.

Mr Norfield said most of the interbank market was sceptical about the dollar rallying, but also wary of selling the currency in the face of possible central bank intervention.

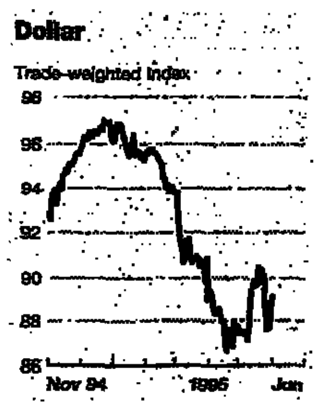
Mr Jeremy Hawkins, chief economist at the Bank of America in London, said the passage of the dollar yesterday had illustrated two points: the short-lived effect of intervention, and that sentiment towards the dollar "is going to be determined by how the figures come in."

While intervention had provided the dollar with a short-term base, said Mr Hawkins, he continued: "Unless we see a pick-up in US data, there is every possibility we are going to see a record low before the year is out."

■ The Bank of England provided UK money markets with £555m late assistance, and £85m at established rates, after forecasting a £750m shortage. Three month LIBOR traded at 6 11/16 per cent.

Dollar

Trade-weighted index



Source: Datastream

■ **Pound in New York**

Jun 1	Latest	Prev. close
£ spot	1.5945	1.5875
1 mth	1.5942	1.5872
3 mth	1.5927	1.5855
1 yr	1.5779	1.5710

■ **OTHER CURRENCIES**

Jun 1	£	$
Hungary	195.342 - 195.532	122.810 - 122.860
Iran	4774.50 - 4771.80	3000.00 - 3000.00
Kuwait	0.4758 - 0.4767	0.2990 - 0.2995
Poland	3.7488 - 3.7599	2.3575 - 2.3625
Russia	7817.45 - 7817.79	4912.00 - 4915.00
U.A.E.	5.8413 - 5.8454	3.6724 - 3.6729

POUND SPOT FORWARD AGAINST THE POUND

Jun 1		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.9223	+0.1392	144 - 301	15.9954	15.7452	15.8892	1.7	15.852	1.8	-	-	107.0
Belgium	(BFr)	46.3791	+0.2714	501 - 081	46.6020	46.0330	46.3141	1.7	46.1841	1.7	45.5741	1.7	109.8
Denmark	(DKr)	8.8375	+0.0716	310 - 440	8.8676	8.7542	8.8411	-0.5	8.8329	0.2	8.802	0.4	109.9
Finland	(FM)	6.9353	+0.053	293 - 413	6.9720	6.8750	-	-	-	-	-	-	87.0
France	(FFr)	7.9545	+0.0579	482 - 607	7.9857	7.8835	7.9629	-1.3	7.9714	-0.8	7.9295	0.3	108.2
Germany	(DM)	2.2645	+0.0198	634 - 655	2.2775	2.2419	2.2612	1.7	2.253	2.0	2.2113	2.3	111.7
Greece	(Dr)	362.449	-1.945	116 - 782	363.638	359.100	-	-	-	-	-	-	68.9
Ireland	(I£)	0.9802	+0.0018	794 - 809	0.9832	0.9745	0.9798	0.5	0.9796	0.2	0.9798	0.0	97.7
Italy	(L)	2624.44	+20.01	290 - 598	2634.27	2600.67	2633.94	-4.3	2651.44	-4.1	2722.94	-3.8	67.9
Luxembourg	(LFr)	46.3791	+0.2714	501 - 081	46.6020	46.0330	46.3141	1.7	46.1841	1.7	45.5741	1.7	109.8
Netherlands	(Fl)	2.5295	+0.0149	279 - 310	2.5448	2.5117	2.5254	1.9	2.5217	1.2	2.4693	2.4	109.3
Norway	(NKr)	10.0467	+0.077	399 - 535	10.1263	9.9627	10.038	1.0	10.0144	1.3	9.8871	1.6	99.1
Portugal	(Es)	238.387	+1.915	224 - 550	239.417	236.298	237.522	4.4	240.692	-3.9	-	-	95.5
Spain	(Pta)	196.232	+1.856	137 - 327	197.168	194.577	196.732	-3.1	197.807	-3.2	202.832	-3.4	80.9
Sweden	(SKr)	11.6818	+0.0203	717 - 918	11.7808	11.6096	11.6841	-0.2	11.6886	-0.2	11.7072	-0.2	77.8
Switzerland	(SFr)	1.8687	+0.014	674 - 700	1.8801	1.8501	1.864	3.0	1.8538	3.2	1.8057	3.4	113.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.8
Ecu	-	1.2235	+0.0074	227 - 243	1.2253	1.2105	1.2236	0.0	1.2223	0.4	1.2151	0.7	-
SDR†	-	1.017800	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5910	+0.0027	904 - 915	1.5932	1.5800	-	-	-	-	-	-	-
Brazil	(R$)	1.4423	+0.0923	411 - 435	1.4453	1.4342	-	-	-	-	-	-	-
Canada	(C$)	2.1864	+0.0116	853 - 874	2.1895	2.1673	2.1889	-1.4	2.1917	-1.0	2.1825	0.2	82.4
Mexico	(New Peso)	9.8884	+0.095	617 - 150	9.9150	9.7972	-	-	-	-	-	-	-
USA	($)	1.5911	+0.0025	906 - 915	1.5935	1.5802	1.5908	0.2	1.5893	0.5	1.5751	1.0	89.1
Pacific/Middle East/Africa													
Australia	(A$)	2.2276	+0.0205	262 - 290	2.2304	2.2262	2.2298	-1.2	2.2332	-1.0	2.2425	-0.7	77.7
Hong Kong	(HK$)	12.3084	+0.0205	041 - 126	12.3265	12.2252	12.3044	0.4	12.295	0.4	12.2281	0.7	-
India	(Rs)	49.9749	+0.0547	448 - 049	50.0360	49.6420	-	-	-	-	-	-	-
Israel	(Shk)	4.8002	+0.004	941 - 062	4.8172	4.7832	-	-	-	-	-	-	-
Japan	(Y)	135.398	+0.935	281 - 516	135.900	134.050	134.833	5.0	133.578	5.4	127.718	5.7	169.5
Malaysia	(M$)	3.9164	+0.0006	145 - 183	3.9216	3.8986	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4050	+0.0135	034 - 066	2.4100	2.4053	2.4096	-2.4	2.4188	-2.3	2.4355	-1.3	97.8
Philippines	(Peso)	41.0492	+0.0645	784 - 199	40.9272	40.9580	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9676	+0.0094	657 - 694	5.9784	5.9273	-	-	-	-	-	-	-
Singapore	(S$)	2.2132	-0.0008	117 - 146	2.2158	2.2036	-	-	-	-	-	-	-
South Africa	(R)	5.8824	+0.0169	595 - 852	5.8719	5.8294	-	-	-	-	-	-	-
South Korea	(Won)	1209.76	+5.87	983 - 018	1211.54	1200.00	-	-	-	-	-	-	-
Taiwan	(T$)	40.8916	+0.2628	736 - 095	40.9482	40.5315	-	-	-	-	-	-	-
Thailand	(Bt)	39.2910	+0.6858	640 - 180	39.3590	39.0470	-	-	-	-	-	-	-

† Rates for May 31. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.0074	+0.0719	053 - 095	10.1085	9.9480	9.9235	1.4	9.9754	1.3	9.8809	1.3	106.9
Belgium	(BFr)	29.1500	+0.125	400 - 600	29.4400	29.0400	28.99	1.4	29.06	1.2	28.94	0.7	109.4
Denmark	(DKr)	5.5545	+0.0363	520 - 570	5.5999	5.5210	5.5215	-0.7	5.564	-0.7	5.589	-0.6	109.0
Finland	(FM)	4.3590	+0.0265	564 - 615	4.4017	4.3309	4.3307	0.5	4.354	0.5	4.3535	0.1	86.1
France	(FFr)	4.9995	+0.0288	970 - 020	5.0422	4.9630	4.9771	-1.5	5.016	-1.3	5.035	-0.7	107.7
Germany	(DM)	1.4233	+0.0103	230 - 235	1.4390	1.4138	1.4112	1.5	1.4178	1.6	1.4041	1.3	111.1
Greece	(Dr)	227.805	-1.205	660 - 950	229.790	226.780	231.01	-10.5	233.555	-10.1	249.305	-9.4	67.2
Ireland	(I£)	1.6233	-0.0005	225 - 241	1.6273	1.6107	1.6243	-0.4	1.6257	-0.6	1.6305	-0.4	-
Italy	(L)	1649.50	+10	900 - 000	1662.00	1639.25	1646	-4.8	1668.75	-4.7	1729	-4.8	67.5
Luxembourg	(LFr)	29.1500	+0.125	400 - 600	29.4400	29.0400	28.99	1.4	29.06	1.2	28.94	0.7	109.4
Netherlands	(Fl)	1.5898	+0.0068	893 - 903	1.6085	1.5831	1.5807	1.7	1.5831	1.7	1.5678	1.4	108.9
Norway	(NKr)	6.3145	+0.0385	120 - 170	6.3876	6.2796	6.2772	-0.2	6.3085	0.4	6.301	0.2	96.1
Portugal	(Es)	149.830	+0.97	770 - 890	151.300	148.990	149.31	-3.6	151.28	-3.9	157.08	-4.8	95.4
Spain	(Pta)	123.335	+0.66	310 - 360	124.450	122.750	123.015	-3.3	124.475	-3.7	128.81	-4.4	80.5
Sweden	(SKr)	7.3422	+0.0012	379 - 464	7.4238	7.3190	7.3567	-2.6	7.3937	-2.8	7.5797	-3.2	76.8
Switzerland	(SFr)	1.1745	+0.007	740 - 750	1.1880	1.1663	1.1648	2.7	1.1666	2.7	1.1465	2.4	112.5
UK	(£)	1.5911	+0.0025	906 - 915	1.5935	1.5802	1.5908	0.2	1.5893	0.5	1.5751	1.0	83.7
Ecu	-	1.3004	-0.0059	999 - 009	1.3068	1.2918	1.3002	0.1	1.3001	0.1	1.2961	0.3	-
SDR†	-	0.63450	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0000	+0.0001	999 - 000	1.0000	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9065	-	060 - 070	0.9070	0.9040	-	-	-	-	-	-	-
Canada	(C$)	1.3742	+0.0061	739 - 744	1.3763	1.3703	1.376	-1.6	1.3792	-1.4	1.3907	-1.2	81.2
Mexico	(New Peso)	6.2150	+0.05	000 - 300	6.2300	6.1900	6.2172	-0.4	6.2204	-0.4	6.2253	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	89.9
Pacific/Middle East/Africa													
Australia	(A$)	1.4000	+0.0107	996 - 006	1.4089	1.3997	1.4016	-1.4	1.4055	-1.6	1.4267	-1.9	79.0
Hong Kong	(HK$)	7.7360	+0.0007	355 - 365	7.7366	7.7360	7.7342	0.3	7.7337	0.1	7.7495	-0.2	-
India	(Rs)	31.4100	-0.015	000 - 200	31.4250	31.3900	31.49	-3.1	31.735	-4.1	-	-	-
Israel	(Shk)	3.0170	-0.0022	140 - 199	3.0369	3.0140	-	-	-	-	-	-	-
Japan	(Y)	85.1000	+0.455	500 - 500	85.8500	84.5700	84.765	4.7	84.05	4.9	81.075	4.7	170.8
Malaysia	(M$)	2.4615	-0.0035	610 - 620	2.4685	2.4610	2.4595	1.0	2.4571	0.7	2.4515	0.4	-
New Zealand	(NZ$)	1.5115	+0.0062	110 - 122	1.5221	1.5110	1.5148	-2.7	1.5217	-2.7	1.541	-1.9	-
Philippines	(Peso)	25.8000	-	000 - 000	25.9000	25.7000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	-	506 - 508	3.7508	3.7507	3.7517	-0.3	3.7538	-0.3	3.7657	-0.4	-
Singapore	(S$)	1.3910	-0.0027	905 - 915	1.3950	1.3912	1.3858	4.5	1.3775	3.9	1.351	2.9	-
South Africa	(R)	3.6946	+0.0048	838 - 853	3.6945	3.6810	3.7066	-6.8	3.7566	-7.8	4.0126	-8.9	-
South Korea	(Won)	760.350	+2.5	300 - 400	760.400	757.100	763.35	-4.7	766.85	-3.4	785.35	-3.3	-
Taiwan	(T$)	25.7010	+0.125	970 - 050	25.7150	25.6790	25.721	-0.9	25.761	-0.9	-	-	-
Thailand	(Bt)	24.6950	+0.015	850 - 050	24.7350	24.6800	24.716	-1.0	24.7425	-0.8	24.83	-0.5	-

† SDR rate per $ for May 31. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 31. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

June 1	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4 13/16	4 3/4	4 7/8	5	5 1/4	7.40	4.00	-
week ago	4 1/2	4 3/4	5	5 3/16	5 5/16	7.40	4.00	-
France	7 3/4	7 5/8	7 3/8	7 1/4	6 3/4	5.00	-	8.00
week ago	7 3/8	7 1/2	7 1/2	7 1/8	6 3/4	5.00	-	8.00
Germany	4 1/2	4 1/2	4 1/2	4 1/2	4 5/8	6.00	4.00	4.51
week ago	4 3/8	4 1/2	4 7/16	4 1/2	4 5/8	6.00	4.00	4.51
Ireland	6 3/8	6 7/16	6 11/16	6 15/16	7 1/4	-	-	6.25
week ago	6 3/8	6 7/16	6 11/16	6 15/16	7 1/4	-	-	6.25
Italy	10 1/4	10 13/16	10 9/16	10 3/4	11	-	7.50	10.40
week ago	10 1/4	10 11/16	10 1/4	10 7/16	10 11/16	-	7.50	10.25
Netherlands	4 5/8	4 3/8	4 3/8	4 7/16	4 5/8	-	5.25	-
week ago	4 5/8	4 3/8	4 3/8	4 1/2	4 11/16	-	5.25	-
Switzerland	2 7/8	3 5/8	3 5/8	3 3/8	3 1/2	6.625	3.00	-
week ago	2 7/8	3 5/8	3 1/4	3 3/8	3 7/16	6.625	3.00	-
US	6	6	6	5 15/16	5 15/16	-	5.25	-
week ago	6	6	6	6	6	-	5.25	-
Japan	1 3/8	1 5/16	1 5/16	1 5/16	1 3/8	-	1.00	-
week ago	1 3/8	1 5/16	1 5/16	1 5/16	1 3/8	-	1.00	-
■ $ LIBOR FT London								
Interbank Fixing	-	6 1/16	6 1/16	6	6	-	-	-
week ago	-	6 1/16	6 1/16	6 1/16	6 1/16	-	-	-
US Dollar CDs	-	5.79	5.79	5.78	5.77	-	-	-
week ago	-	5.79	5.79	5.77	5.76	-	-	-
ECU Linked Ds	-	6 1/8	6 5/8	6 1/4	6 3/8	-	-	-
week ago	-	6 1/8	6 5/8	6 1/4	6 3/8	-	-	-
SDR Linked Ds	-	4	4 1/8	4 1/8	4 1/8	-	-	-
week ago	-	4	4 1/8	4 1/8	4 1/4	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 1	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 5/8 - 4 1/2	4 11/16 - 4 9/16	4 11/16 - 4 9/16	4 7/8 - 4 3/4	5 - 4 7/8	5 1/4 - 5 1/8
Danish Krone	6 1/2 - 6	7 5/8 - 7 3/8	7 3/4 - 7 5/8	7 3/4 - 7 5/8	7 3/4 - 7 5/8	7 3/4 - 7 5/8
D-Mark	4 9/16 - 4 7/16	4 9/16 - 4 7/16	4 15/32 - 4 13/32	4 15/32 - 4 13/32	4 7/16 - 4 3/8	4 5/8 - 4 1/2
Dutch Guilder	4 3/8 - 4 1/4	4 7/16 - 4 5/16	4 7/16 - 4 5/16	4 7/16 - 4 3/8	4 9/16 - 4 7/16	4 5/8 - 4 9/16
French Franc	7 5/8 - 7 3/8	7 5/8 - 7 3/8	7 5/8 - 7 3/8	7 1/2 - 7 1/4	7 1/4 - 7	6 13/16 - 6 9/16
Portuguese Esc.	9 - 8 7/8	9 1/8 - 8 13/16	9 1/2 - 9 3/8	10 - 9 13/16	10 1/2 - 10 5/16	11 1/16 - 10 13/16
Spanish Peseta	8 15/16 - 8 13/16	9 - 8 7/8	9 3/8 - 9 1/4	9 11/16 - 9 9/16	10 1/16 - 9 15/16	10 1/2 - 10 3/8
Sterling	5 5/8 - 5 3/8	6 1/16 - 5 13/16	6 5/16 - 6 1/4	6 17/32 - 6 13/32	6 13/16 - 6 11/16	7 1/16 - 7
Swiss Franc	3 1/4 - 3	3 1/4 - 3 1/8	3 1/4 - 3 1/8	3 7/16 - 3 5/16	3 3/8 - 3 1/4	3 1/2 - 3 3/8
Can. Dollar	7 7/8 - 7 11/16	7 5/8 - 7 7/16	7 1/2 - 7 3/8	7 7/16 - 7 5/16	7 5/16 - 7 3/16	7 1/4 - 7 1/8
US Dollar	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 - 5 7/8	6 - 5 7/8
Italian Lira	10 1/8 - 10	10 11/16 - 10 9/16	10 11/16 - 10 9/16	10 11/16 - 10 9/16	10 3/4 - 10 5/8	11 - 10 7/8
Yen	1 5/16 - 1 1/4	1 11/32 - 1 9/32	1 5/16 - 1 1/4	1 3/16 - 1 1/8	1 1/8 - 1 1/16	1 1/16 - 1
Asian $Sing	1/4 - 1/8	1/4 - 1/8	1/2 - 3/8	1 - 7/8	1 1/2 - 1 3/8	2 1/4 - 2 1/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.71	92.67	+0.03	92.79	92.64	28,824	35,488
Sep	93.63	93.51	-0.02	93.63	93.50	27,390	54,874
Dec	93.82	93.81	-0.05	93.92	93.78	4,102	32,640

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.57	95.58	+0.01	95.62	95.54	25990	106939
Sep	95.62	95.64	+0.04	95.68	95.58	36791	135966
Dec	95.51	95.53	+0.05	95.57	95.45	41764	138135
Mar	95.35	95.40	+0.06	95.45	95.29	39510	103536

■ **THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	89.35	89.40	+0.03	89.54	89.33	9977	29284
Sep	89.35	89.42	+0.07	89.51	89.35	6859	31084
Dec	89.43	89.41	+0.06	89.50	89.36	1423	16809
Mar	89.42	89.40	+0.05	89.48	89.37	1073	8049

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.68	96.67	+0.02	96.69	96.65	1797	17187
Sep	96.64	96.66	+0.03	96.70	96.61	2785	14332
Dec	96.53	96.53	+0.05	96.54	96.47	1039	7119
Mar	96.37	96.40	+0.05	96.40	96.33	457	3654

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.63	93.62	+0.03	93.68	93.61	508	6969
Sep	93.85	93.85	+0.04	93.90	93.83	360	6149
Dec	93.84	93.81	+0.04	93.84	93.84	10	3181
Mar	93.64	93.67	+0.04	93.65	93.62	39	1726

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
8925	0.32	0.67	0.78	0.17	0.50	0.62
8950	0.18	0.52	0.64	0.28	0.60	0.73
8975	0.10	0.40	0.52	0.45	0.73	0.86

Est. vol. total, Calls 100 Puts 50. Previous day's open int., Calls 7291 Puts 4770

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.06	17.15	4.882	2.113	5659	5.454	21.65	513.9	423.1	25.19	4.028	2.157	4.714	3.431	291.8	2.637
Denmark	(DKr)	52.47	10	9.001	2.562	1.109	2969	2.862	11.36	269.7	222.0	13.22	2.114	1.132	2.474	1.800	153.1	1.384
France	(FFr)	58.30	11.11	10	2.846	1.232	3299	3.180	12.62	299.6	246.7	14.68	2.349	1.257	2.748	2.000	170.1	1.538
Germany	(DM)	20.48	3.903	3.513	1	0.433	1159	1.117	4.435	105.3	86.68	5.159	0.825	0.442	0.966	0.703	59.76	0.540
Ireland	(I£)	47.32	9.017	8.116	2.310	1	2678	2.581	10.24	243.2	200.2	11.92	1.906	1.020	2.231	1.623	138.1	1.248
Italy	(L)	1.767	0.337	0.303	0.086	0.037	100.	0.096	0.383	9.082	7.477	0.445	0.071	0.038	0.083	0.061	5.156	0.047
Netherlands	(Fl)	18.34	3.494	3.145	0.895	0.388	1038	1	3.970	94.23	77.58	4.618	0.739	0.395	0.864	0.629	53.50	0.484
Norway	(NKr)	46.19	8.802	7.922	2.255	0.976	2614	2.519	10	237.4	195.4	11.63	1.861	0.996	2.177	1.585	134.8	1.218
Portugal	(Es)	19.46	3.708	3.338	0.950	0.411	1101	1.061	4.213	100.	82.33	4.901	0.784	0.420	0.917	0.668	56.78	0.513
Spain	(Pta)	23.63	4.504	4.054	1.154	0.499	1337	1.289	5.117	121.5	100.	5.953	0.952	0.510	1.114	0.811	68.96	0.623
Sweden	(SKr)	39.70	7.566	6.810	1.938	0.839	2247	2.165	8.596	204.0	168.0	10	1.599	0.856	1.872	1.362	115.8	1.047
Switzerland	(SFr)	24.82	4.731	4.258	1.212	0.525	1405	1.354	5.375	127.6	105.0	6.253	1	0.535	1.170	0.852	72.43	0.655
UK	(£)	46.37	8.837	7.954	2.264	0.980	2624	2.529	10.04	238.3	196.2	11.68	1.868	1	2.186	1.591	135.3	1.223
Canada	(C$)	21.21	4.043	3.639	1.036	0.448	1200	1.157	4.593	109.0	89.75	5.343	0.855	0.457	1	0.728	61.89	0.559
US	($)	29.15	5.554	4.999	1.423	0.616	1649	1.590	6.310	149.8	123.3	7.341	1.174	0.629	1.374	1	85.04	0.769
Japan	(Y)	34.27	6.531	5.879	1.673	0.724	1939	1.869	7.421	176.1	145.0	8.633	1.381	0.739	1.616	1.176	100.	0.904
Ecu		37.91	7.226	6.504	1.851	0.801	2146	2.068	8.209	194.8	160.4	9.550	1.527	0.818	1.787	1.301	110.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7074	0.7009	-0.0089	0.7075	0.6982	30,824	63,099
Sep	0.7060	0.7035	-0.0071	0.7080	0.7011	4,059	8,902
Dec	0.7050	0.7058	-0.0073	0.7060	0.7050	29	1,386

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.1855	1.1764	-0.0110	1.1881	1.1670	23,929	57,756
Sep	1.1810	1.1909	-0.0115	1.1910	1.1810	3,539	8,324
Dec	1.2010	1.2010	-0.0182	1.2010	1.2010	18	884

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8577	0.8490	-0.0098	0.8586	0.8430	15,973	23,877
Sep	0.8605	0.8548	-0.0094	0.8605	0.8496	768	3,763
Dec	-	0.8590	-	-	0.8580	5	739

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5852	1.5872	-0.0024	1.5882	1.5804	9,595	23,255
Sep	1.5830	1.5850	-0.0022	1.5850	1.5820	891	1,778
Dec	-	1.5800	-	-	1.5790	2	176

UK INTEREST RATES

LONDON MONEY RATES

Jun 1	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 1/2 - 6 3/4	6 3/8 - 5 13/16	6 5/16 - 6 3/16	6 5/8 - 6 1/2	6 13/16 - 6 11/16	7 1/8 - 6 31/32
Sterling CDs	-	-	6 3/8 - 6 7/32	6 15/32 - 6 13/32	6 13/16 - 6 5/8	7 1/16 - 6 15/16
Treasury Bills	-	-	6 1/8 - 6	6 1/4 - 6 1/8	-	-
Bank Bills	-	-	6 1/8 - 6 1/16	6 3/8 - 6 5/16	6 17/32 - 6 15/32	-
Local authority deps.	6 5/8 - 6 1/2	5 15/16 - 5 13/16	6 1/4 - 6 1/8	6 15/32 - 6 13/32	6 23/32 - 6 21/32	7 1/8 - 7
Discount Market deps	7 - 6 1/2	6 1/16 - 5 13/16	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5 1/4	5 3/4	6	6 1/4

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 6.0766pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1995. Agreed rate for period June 26, 1995 to July 25, 1995, Schemes II & III 8.03pc. Reference rate for period Apr 29, 1995 to May 31, 1995, Schemes IV & V 6.789pc. Finance House Base Rate 7pc from June 1, 1995

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.27	93.32	+0.10	93.32	93.26	9350	67971
Sep	93.02	93.10	+0.13	93.13	93.01	32438	101505
Dec	92.82	92.90	+0.14	92.94	92.81	13053	72291
Mar	92.61	92.71	+0.14	92.74	92.61	8938	41157

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9325	0.14	0.17	0.20	0.07	0.32	0.55
9350	0.02	0.08	0.12	0.20	0.48	0.72
9375	0	0.03	0.07	0.43	0.68	0.92

Est. vol. total, Calls 8450 Puts 5826. Previous day's open int., Calls 203648 Puts 207295

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs.	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	●United Bk of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	* In administration	
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	*Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

EMS EUROPEAN CURRENCY UNIT RATES

Jun 1	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.09275	+0.00724	-2.76	5.49	-
Belgium	39.3960	38.3191	+0.057	-2.73	5.46	20
Austria	13.4383	13.1494	+0.0483	-2.15	4.18	2
Germany	1.91007	1.87009	+0.00702	-2.09	4.77	-
Spain	162.493	162.039	-0.116	-0.28	2.87	2
Denmark	7.28580	7.30012	+0.01911	0.20	2.38	-1
Portugal	195.792	197.012	+0.403	0.62	1.95	-4
Ireland	0.792214	0.807622	-0.006588	1.94	0.62	-13
France	6.40608	6.57142	+0.00971	2.58	0.00	-22
NON ERM MEMBERS						
Greece	292.867	299.305	-2.628	2.20	0.37	-
Italy	2106.15	2157.19	-14.04	2.42	0.15	-
UK	0.786652	0.824344	-0.011782	4.79	-2.11	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.525	6.17	-	-	-	-	0.72
1.550	3.84	-	4.94	0.14	-	1.33
1.575	1.93	2.75	3.37	0.68	1.56	2.26
1.600	0.71	1.58	2.21	1.89	2.77	3.47
1.625	0.17	-	1.35	3.79	4.09	-
1.650	-	0.33	-	6.11	-	-

Previous day's vol., Calls 15,933 Puts 14,797. Prev. day's open int., Calls 273,290 Puts 337,551

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100% (May 26)

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	93.96	93.96	-	93.98	93.96	49,724	340,338
Sep	94.22	94.20	-	94.22	94.18	77,313	361,840
Dec	94.23	94.21	-	94.23	94.19	133,213	320,859

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100% (May 26)

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.41	94.42	+0.02	94.42	94.40	1,106	8,105
Sep	94.62	94.62	+0.01	94.63	94.60	1,637	11,945
Dec	94.66	94.64	-	94.66	94.63	189	11,961

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
9550	0.10	0.22	0.25	0.28	0.02	0.08	0.11	0.14
9575	0.02	0.09	0.13	0.15	0.19	0.20	0.24	0.26
9600	0	0.03	0.04	0.07	0.42	0.39	0.40	0.43

Est. vol. total, Calls 25363 Puts 14845. Previous day's open int., Calls 229220 Puts 306390

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9650	0.16	0.26	0.28	0.01	0.10	0.23
9675	0.03	0.11	0.14	0.11	0.20	0.36
9700	0	0.04	0.07	0.33	0.38	0.54

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 1310 Puts 1035

LONDON SHARE SERVICE

BANKS, MERCHANT

Notes	Price	+ or -	1995 high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cu 2nd Pf	58½#	—	98	50¼	8.31	19.8	-
9¾pc Non-Cum Pf	4⅝#	—	118½	3	1.90	-	-
Cater Allen	[illegible]	+2	621	418	169.5	6.8	10.7
Close Bros	277	—	278	219	289.7	3.6	12.5
Gerrard & Nat	481	-2	480	385	224.8	6.5	13.3
Hambros	204	+1	253	195	380.3	8.2	12.5
7½pc Cv Pf	102	—	112	94	131.4	9.2	-
Joseph (L)	383	—	408	363	19.2	6.1	10.6
King & Shaxson	116	-1	124	85	20.2	9.7	11.5
Kleinwort Benson	681	+7	708	529	888.0	4.1	11.8
Rea Bros	51	—	67	51	24.8	2.5	18.7
Schroders	1135	-3	*1145	906¾	1,713	1.5	18.2
N/V	938	-10	*978¼	823¼	412.7	1.8	13.4
Singer & Fried	98xd	+1	98	81	186.5	4.6	9.9
Union	95	—	165	70	28.1	3.8	-
Warburg (SG)	740xd	+4	883	655	1,635	3.7	-
Wintrust	218	+8	235	200	18.1	6.9	Φ

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

INVESTMENT COMPANIES - Cont.

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or –	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£32½	—	£34	£29	2,124	2.4	Φ
Barlow	♣	281½	—	583½	24⅞	1,307	1.5	24.4
Gold Flds Prop R		144	—	152	118	14.7	7.1	6.7
MK Props		90	—	95	85	3.82	12.7	-
SASOL	♥	804	—	848	435	3,536	2.2	-
SA Brews		£17¼xd	—	£18½	£12⅞	4,986	1.9	Φ
Tiger Oats		875	—	875	700	1,316	1.7	21.5
Tongaat-Hulett	†n	725xd	—	788	635	889.8	1.9	22.1

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ◆ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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OFFSHORE AND OVERSEAS

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Fidelity Money Funds
Pembroke Hall, Pembroke, Bermuda
UK Prof Advisers 0800 414181 Jersey 01534 71696
Private Clients 0800 414161 00 352 250404230
From O'seas (44 1732 777377 Hong Kong (852) 848 1000

	Init Chrge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
A$ Accum			A$17.602		+0.003	8.40
A$ Dist			A$15.319		+0.003	8.40
ASch Accum			Sch240.61		+0.09	3.40
ASch Dist			[illegible]		+0.07	3.40
BFr Accum			[illegible]		+0.22	3.80
BFr Dist			[illegible]		+0.21	3.80
C$ Accum			C$17.608		+0.003	6.60
C$ Dist			C$15.332		+0.003	6.60
DKr Accum			DKr109.20		+0.07	6.50
DKr Dist			DKr101.78		+0.07	6.50
DM Accum			[illegible]		+0.011	3.60
DM Dist			[illegible]		+0.011	3.60
DFl Accum			DFl30.703		+0.001	3.40
DFl Dist			DFl25.307		+0.005	3.40
ECU Accum			Ecu12.789		+0.005	5.40
ECU Dist			Ecu10.170		+0.006	5.40
FM Accum			FM105.16		+0.01	4.00
FM Dist			FM101.24		+0.02	4.00
FFr Accum			[illegible]		+0.021	6.30
FFr Dist			FFr30.924		+0.003	6.30
HK$ Accum			HK$173.31		+0.02	5.10
HK$ Dist			HK$101.83		+0.01	5.10
I£ Accum			I£11.582		+0.002	5.30
I£ Dist			I£10.758		+0.002	5.30
Lira Accum			L20658		+5	10.00
Lira Dist			L15432		+4	10.00
NZ$ Accum			NZ$35.931		+0.020	7.70
NZ$ Dist			[illegible]		+0.005	7.70
NKr Accum			NKr[illegible]		+0.08	4.70
NKr Dist			NKr101.35		+0.06	4.70

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

GUERNSEY (SIB RECOGNISED)

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey 01481 710851

	Init Chrge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
European Bd &		3	$11.7985	12.2912	+0.0226	7.69
Emerging Mkts Equity		3	$7.4213	7.8604	+0.0266	17.35

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Emerging Mkts Liquid as Pfolio	$13.17	13.50	—	–

Apollo Investment Management Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Japan	£9.873	10.466	-0.087	–
Tiger	£10.469	11.141	+0.003	–

Arab Bank Fund Managers (Guernsey) Ltd
AB International Fund Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Managed Currency	$11.24	11.39	+0.04	–
International Bond	$11.33	11.37	+0.06	–

Bachmann Global Investment Fund Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Cash, GBP & Stg Fxd Int	£18.06	18.13	—	–
US Dollar Intl Bond & Cry	$[illegible]	[illegible]	—	–
Sterling Intl Bond & Cry	£[illegible]	104.47	—	–
Global Equity	$[illegible]	[illegible]	—	–
Intl Equity Index	$104.36	108.42	—	–

For Bellmont see Other Offshore Funds

CIBC Fund Managers (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
PCF Sterling Bond ◆	£17.18	11.36	—	8.47
PCF US Dollar Bond ◆	$15.86	16.15	—	7.77
PCF Canadian Dollar Bond ◆	C$22.22	22.61	—	10.10
PCF Euro Bond ◆	$[illegible]	19.27	—	–
PCF Euro Equity ◆	$[illegible]	10.84	—	–
PCF Balanced ◆	$18.13	18.47	—	–
PCF Far East ◆	$16.14	17.09	—	–

Clariden Investment Management (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Clariden India Fund		$91.82	—	–

Dantrust Management (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Dantrust Limited	Ecu20.05	20.80	+0.42	–

GT Asset Management

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

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Credit Investment Funds - Contd.

Morgan Stanley Sicav

Allied Dunbar International Assce Ltd (z)

Royal Skandia Life Assurance Ltd - Contd.

Chescor Indian Investment Company Ltd

The China Fund

The China Invest & Development Fd Ltd

Citibank Global Asset Mgmt (Asia) Ltd

Global Asset Management - Contd.

E D & F Man Investment Products - Contd.

Rosenwald, Roditi & Co Ltd

Sabre Futures Fund

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON STOCK EXCHANGE

MARKET REPORT

Equities shrug off early decline on Wall Street

By Steve Thompson, UK Stock Market Editor

London's equity market slipped back from its highs yesterday but still recorded its best closing level of 1995, in the wake of Wall Street's upsurge on Wednesday.

European equity markets were unsettled during the afternoon by a weak opening on Wall Street, which reflected the latest economic news from the US. Another increase in US unemployment claims, coupled with a much lower than expected National Association of Purchasing Management index for May, increased market fears that the US could be heading for a "hard landing" or recession, rather than a "soft landing".

Following the NAPM news and also the Bundesbank's "no change" policy on German interest rates, the dollar began to lose ground against the D-Mark, yen and French franc.

There was some comfort for equity markets, however, in the performance of bonds, bunds and gilts which delivered another impressively strong showing.

At the close the FT-SE 100 Index was 21.2 firmer at 3,340.6. The FT-SE Mid 250 index ended 21 up at a 1995 closing peak of 3,674.8. Turnover was 663.1m shares yesterday, while the value of customer business on Wednesday improved to £1.2bn.

Marketmakers in London refused to be panicked by Wall Street's opening slide. "We are still very bullish; we have given back some of the market's earlier gain, but the feeling in the marketplace is still very positive," said the head of marketmaking at one of the leading UK securities houses.

He added that the market was expecting a flurry of corporate activity in coming weeks, spearheaded by the bid battle for control of VSEL, the warship manufacturer.

The pharmaceuticals sector is another area where corporate activity is thought to be imminent, with the Fisons/Medeva merger terms expected very soon. And talk that a sizeable bid is on the cards in the merchant banks refuses to die down. Kleinwort Benson has long been a prime target in the sector.

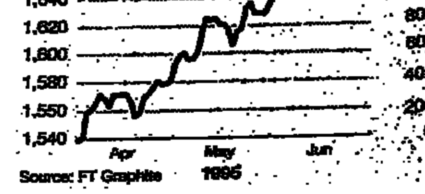
Wednesday's 86-point leap by the Dow Jones Industrial Average and an initial further rise in the dollar triggered an early mark-up in UK equities. The FT-SE 100 opened some 33 points ahead and stayed around the 3,350 level until the early afternoon, when a jittery Wall Street saw the Footsie close some 12 points below the day's high.

Most of the day's corporate reports were well up to expectations and often exceeded consensus forecasts. Siebe, the diversified engineering group, topped the FT-SE 100 performance table after delivering excellent figures accompanied by an encouraging statement.

Northern Ireland Electricity figured prominently in the FT-SE Mid 250 Index after bumper figures and as the company announced that it was seeking shareholder permission to buy back 15 per cent of its own shares.

Mr Richard Jeffrey, economist and equity market strategist at Charterhouse Tilney, the stockbroker, maintained "there is a lot of value in London, more so than in Wall Street", pointing to improved institutional liquidity and also to falling gilt yields, "which reveal the value in the equity market".

FT-SE-A All-Share Index



Source: FT Graphite 1995

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover

Indices and ratios

FT-SE 100	3340.6	+21.2
FT-SE Mid 250	3674.8	+21.0
FT-SE-A 350	1660.9	+10.4
FT-SE-A All-Share	1642.33	+9.77
FT-SE-A All-Share yield	3.94	(3.96)
FT Ordinary index	2522.8	+16.1
FT-SE-A Non Fins p/e	16.80	(16.86)
FT-SE 100 Fut Jun	3346.0	+21.0
10 yr Gilt yield	7.86	(7.96)
Long gilt/equity yld ratio:	2.03	(2.04)

Best performing sectors

1 Household Goods .... +1.4
2 Banks, Retail .... +1.3
3 Property .... +1.3
4 Media .... +1.1
5 Tobacco .... +1.0

Worst performing sectors

1 Water .... -0.2
2 Building Mats .... -0.0
3 Chemicals .... +0.1
4 Pharmaceuticals .... +0.1
5 Other Financial .... +0.2

Valuation fears for Glaxo

Pharmaceuticals leader Glaxo Wellcome declined 4 to 723p, against the trend in the sector and the market, on the back of an odd and disturbing story that emanated from the US.

UK dealers said some very negative comments had appeared in a US tip sheet. The manager of a generics supply group was believed to have argued that the American Depositary Receipts were overvalued by $6.00. No US analysts were able to suggest a rationale to the speculation, although Smith Barney said it retained its view that the shares were overvalued. If the story had any basis it could knock around 190p off the UK share price.

Closer to home there was surprise and disappointment at news that Dr David Barry, the deputy to the head of research at Glaxo Wellcome, and two other executive directors, had resigned from the company. Analysts said that, although senior resignations were forecast, Dr Barry had been expected to remain.

The release earlier in the week of disappointing national mortgage lending figures, coupled with talk of broker downgrades, presented an opportunity for profit-taking.

There was also concern that the range of profits forecasts was too wide and the current share price reflected the higher end of valuations. However, Mr Peter Toeman of Hoare Govett, who predicts current-year earnings of £1.6bn, compared with lower end forecasts of around £1.2bn, says he includes £300m of exceptionals in his estimates. He argues that his figures are, in fact, broadly in line with the consensus and the selling was overdone.

Smith New Court and at least one other leading UK securities house were said to have reiterated sell stances, while UBS stressed its buy argument. The divergence of views prompted hectic two-way trading, which saw the stock recover to finish the day 2 off at 652p with 7.8m shares changing hands.

Lloyds volatile

Lloyds Bank shares weakened 11½ in early trading in response to worries over profits and a feeling that the stock was over valued.

Lloyds has outperformed the broad market by almost 15 per cent since the start of the year.

Hanson busy

International conglomerate Hanson was very heavily traded as institutional investors piled in following the official demerger of US Industries (USI).

More than 15m shares changed hands, as the stock traded ex a 9p special dividend that reflected the demerger and closed a net 2¼ higher at 232½p.

Hanson has underperformed the broad market by 6 per cent since late February, when the demerger was first announced. The lag reflected the dilution created by the move and, later, unwillingness by institutions to buy the shares while they included the USI element.

With that unwillingness removed and the dilution discounted buyers moved in for the 3p quarterly dividend to be paid on Monday. USI shares held their $14 flotation price during most of the UK trading, but ticked back to just above $13 by the close.

Retailer Boots moved against the strong market trend, falling 8 to 510p in solid trading of 6.4m after the group reported figures that disappointed the market. The retreat made it the day's worst performing stock in the FT-SE 100.

At the post-results meeting with the company, analysts were particularly disappointed by news of a higher than anticipated tax charge and the lack of news on another share buy-back scheme.

Brokers downgraded full-year profit expectations, with UBS reducing its current year estimate by £20m to £530m. However, the securities house remains positive on the stock, "on the basis of the steady performance at Boots the Chemist and cash flow considerations".

However, Hoare Govett, which has had the stock on its sell list for the last few months, lowered its forecast by £15m to £530m and remains negative.

Northern Ireland Electricity stood out among the regional electricity companies after it reported figures ahead of market expectations. Dealers were also cheered by news that the company will be seeking authority to buy back up to 14.9 per cent of its stock.

The shares jumped 15 to 369p as several brokers upgraded current-year profits expectations.

Renewed enthusiasm for property shares underpinned P&O. Best known for its ferries, the group is also Britain's third biggest property business with a portfolio valued at £1.4bn at the end of 1993.

Recent good numbers, plus asset revaluations from MEPC and Land Securities, have underpinned something of a renaissance for the sector, and P&O's portfolio has a 33 per cent US content and is well spread across the UK. The shares closed 11 higher at 625p.

Ahead of today's traffic figures for May, British Airways was said to be the butt of switching into airports group BAA as a number of bearish stories did the rounds. The most pertinent was a rumour that the airline might have to give up valuable landing slots at Heathrow in order to renew its code sharing (ticket marketing) agreements in the US.

BA, well dealt on volume of 5.5m shares, gave up 2 to 409p, while BAA, which puts out annual results on Monday, gained 8 at 492p.

Medeva rose 2½ to 248p, with the market still expecting news about a deal with Fisons – off a penny at 174p – any day now.

Worries that mobile phones group Vodafone could fall short of market hopes, when the annual results are wheeled out on Tuesday, got the best of yesterday's two-way pull in the stock, which traded 5.7m.

Analysts, who rattled down their estimates to around £370m in January following the company's warnings on fraud, have been edging up in recent weeks, and some observers have begun to feel there could be room for disappointment next week. The shares were 1½ easier at 205½p.

Talk of the bidding for VSEL eventually going above £20 helped to drive the submarine group's shares higher. They gained 20 at 1810p to improve the premium over British Aeropace's all-share offer to 57p.

Control systems group Siebe comfortably led the field on a strong day for the Footsie, surging 21 to 622p on the back of top of the range annual profits and an upbeat progress report. The outturn, notably the group's strong organic sales growth, led NatWest Securities to edge up its profits estimate for the current year by £4m to £324m.

The recent bullish sentiment on British Steel backtracked swiftly, following reports of a further round steel price cuts in North America. According to Metal Bulletin magazine, Nucor, one of the more aggressive of the US mini mills, has reduced its prices for the third time since March. British Steel shares dipped 1¼ to 175¾p in 3.1m traded.

Marketing services group WPP rose 8 to 131p on exceptionally heavy turnover of 12m shares. Yorkshire-Tyne Tees TV recovered 12 to 479p after an upbeat agm statement.

Shell rose 9 to 781p, reflecting further positive sentiment in the wake of the company's presentation to analysts and investors on Wednesday.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Jun 1	May 31	May 30	May 26	May 25	Yr ago	*High	*Low
Ordinary Share	2522.8	2507.7	2506.2	2506.3	2513.2	2364.5	2522.8	2238.3
Ord. div. yield	4.26	4.26	4.26	4.26	4.24	4.25	4.73	4.20
P/E ratio net	15.73	15.66	15.67	15.66	15.91	19.14	21.33	15.73
P/E ratio nil	15.49	15.64	15.63	15.64	15.67	19.71	22.21	15.49

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2526.4	2527.1	2529.8	2530.6	2527.8	2530.4	2529.7	2527.0	2523.0	2532.8	2522.7

	Jun 1	May 31	May 30	May 26	May 25	Yr ago
SEAQ bargains	24,383	22,031	20,303	23,131	29,184	26,144
Equity turnover (£m)†	-	1198.3	952.7	1201.3	1674.6	1161.3
Equity bargains†	-	32,289	30,872	38,841	42,610	30,073
Shares traded (mil)†	-	536.2	575.7	543.0	659.9	519.1

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	950	Total Highs	336	Total contracts	36,384
Total Falls	473	Total Lows	24	Calls	16,579
Same	1,443			Puts	19,805

June 1 *Data based on Equity shares listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	P.P.	131.8	733	689	Brit Aero Cap Uts	720	+2				
-	F.P.	143.7	105	100	Dunmyat An Div	105		M6.2	-	7.4	-
-	F.P.	29.7	105	100	Do. Monthly Div	105		M5.92	-	7.0	-
-	F.P.	25.2	103	98	Finsbury Worldwide	101		-	-	-	-
190	F.P.	438.3	187	165½	General Cable	173	+2	-	-	-	-
80	F.P.	14.6	98	80	Gus Carter	92		-	-	-	20.2
3	F.P.	2.23	3½	3½	Langdons Foods	3½		HvO.1	2.6	3.6	13.3
-	F.P.	13.0	650	650	Oryx India	650		-	-	-	-
-	F.P.	1.00	250	250	Do Warrants	250		-	-	-	-
125	F.P.	20.7	141	125	Precoat Int'l	141		R4.2	2.5	3.7	13.5
-	F.P.	83.9	107	103	Schroder Inc Gth	106		-	-	-	-
-	F.P.	4.27	31	26	Do. Warrants	27		-	-	-	-

FT GOLD MINES INDEX

	May 31	% chg on day	May 30	May 29	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1981.10	-0.5	1911.46	1938.13	1954.46	2.15	2337.98	1637.91
■ Regional Indices								
Africa (16)	2518.50	-1.8	2564.18	2598.21	2819.82	5.15	3711.87	2428.19
Australasia (7)	2219.08	-2.0	2263.59	2233.73	2626.89	1.74	2951.48	1788.20
North America (11)	1683.24	+0.4	1677.24	1710.65	1668.42	0.61	1911.21	1348.18

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Latest prices were unavailable for this edition.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3355.0	3346.0	+21.0	3365.0	3342.0	13187	65290
Sep	3377.0	3369.0	+21.0	3386.0	3366.0	1931	13544
Dec	3405.0	3395.0	+21.0	3405.0	3403.0	68	429

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3695.0	3695.0	+35.0	3695.0	3695.0	302	2733
Sep	3719.0	3720.0	+36.0	3720.0	3719.0	300	2821

■ FT-SE 100 INDEX OPTION (LIFFE) (*3340) £10 per full index point

	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P	3300 C	3300 P	3350 C	3350 P	3400 C	3400 P	3450 C	3450 P	3500 C	3500 P
Jun	197	1½	149½	2	102	5½	61	14	29½	34	10½	66	2½	114	1½	164
Jul	214½	7½	176½	13	139	21½	93½	36	64	57	40½	84½	22½	120	11	164
Aug	222½	17	181	24½	149	37	116	53½	78½	74	56½	101	37	133	22½	171
Sep	238	24	199	35	161½	46½	136½	65	106½	85½	77	112½	55½	143	39½	178½
Dec†			249½	65½			188½	100½			139½	147½			89½	205½

Calls 8,944 Puts 9,714

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3175 C	3175 P	3225 C	3225 P	3275 C	3275 P	3325 C	3325 P	3375 C	3375 P	3425 C	3425 P	3475 C	3475 P	3525 C	3525 P
Jun	172½	2	125	4½	81	11	43½	22½	17	46	4½	83½	1½	129½	1	179
Jul	192	10	149½	16½	111	28	77½	44	58½	66½	30	95½	16½	131	8	172
Aug	201½	20	162½	30	127	44	95½	62	69	85	47½	112½	31	145½	18½	182½
Sep			180	39			115½	72			86	121			32½	185½
Dec†			237½	73½			173½	108½			118	147			74	199½

Calls 1,350 Puts 6,219 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	497	366½	+6½
ASDA Group†	9,300	66	+1¼
Abbey National†	1,700	478	+8
Albert Fisher	90	47	
Allied Domecq†	4,600	525	+5
Anglian Water	1,300	536	+1
Argos	285	427	+2
Argyll Group†	4,400	335	+2
Arjo Wiggins†	1,800	270	+4
Assoc. Brit. Foods†	209	640	+2
Assoc. Brit. Ports	370	285	
BAA†	2,000	492	+8
BAT Inds.†	3,800	497	+6
BET	2,000	130	-1
BICC	1,200	338	+3
BOC†	520	795	
BP†	3,500	446½	+3
BPB Inds.	8,500	312	+1
BT†	6,100	395½	+1
BTR†	8,500	344	+3
Bank of Scotland†	1,100	217	+2
Barclays†	2,500	662	+8
Bass†	701	557	+4
Blue Circle†	1,200	304	+1
Booker	255	431	+2
Boots†	6,300	510	-8
Brit. Aerospace†	516	526	+2
British Airways†	5,400	409	-2
British Gas†	10,000	305	+2½
British Land	1,600	421	+1
British Steel†	3,100	175¾	-1¼
Bunzl	714	202	+3
Burmah Castrol†	126	932	+5
Burton	4,600	89½	+2
Cable & Wire†	3,800	425	+3
Cadbury Schweppes†	2,500	478	+3
Caradon†	915	260	-2
Carlton Comms.†	2,100	954	+6
Coats Viyella	3,300	218	+3
Comm. Union†	2,000	617	+1
Cookson	2,200	246	+5
Courtaulds†	2,600	473	-4
Dalgety	641	444	-1
De La Rue†	220	929	+2
Dixons	2,800	246	-2
Eastern Elect.†	593	639	-3
East Midland Elect.	113	636	
Electrocomps	465	385	+2
Eng China Clays	852	368	+3
Enterprise Oil†	1,200	416	+1
Eurotunnel Units	655	183	+1
FKI	1,500	163	-2
Fisons	797	174	-1
Foreign & Col. I.T.	1,800	140½	+1½
Forte†	5,300	232	+1
Gen. Accident†	1,000	621	+2
General Elect.†	3,600	322	+2
Glaxo Wellcome†	3,300	723	-4
Glynwed	563	352	+3
Granada†	1,700	599	+10
Grand Met.†	7,500	399	+3
GUS†	1,400	620	+5½
GRE†	3,000	207	+4
GKN†	1,000	681	+4
Guinness†	3,500	479	+½
HSBC (75p shs)†	4,200	849	+21
Hammerson	485	359	+3
Hanson†	15,000	232½	+2¼
Harrisons Crosfield	4,200	156	+2
Hays	414	323½	+½
Hillsdown	1,500	184	
IMI	385	316	+2
ICI†	1,600	786	
Inchcape†	1,000	322	
Johnson Matthey	79	587	+5
Kingfisher†	5,700	451	-6
Kwik Save	234	598	-1
Ladbroke†	1,700	181	-2
Land Securities†	1,300	635	+11
Laporte	616	764	+3
Legal & General†	2,800	504	+5
Lloyds Abbey	352	393	+3
Lloyds Bank†	7,800	652	-2
LASMO	5,900	165½	+1½
London Elect.	736	644	-1
Lonrho	3,300	150½	-½
Lucas	448	189	-1
MEPC†	1,500	407	+4
MFI	1,800	125	-2
Manweb	37	675	
Marks & Spencer†	3,200	418	+4
Midlands Elect.	97	644	
Morrison (Wm.)	2,100	145	+2
NFC	670	177	
NatWest Bank†	3,800	547	+8½
National Power†	1,200	471	+4
Next	2,100	343½	+7
North West Water†	731	587	+1
Northern Elect.	227	784	-7
Northern Foods	740	193	
Norweb	120	874	-6
Pearson†	2,100	612	+3
P & O†	2,100	625	+11
Pilkington	1,000	186	+1
PowerGen†	1,500	507	+6
Prudential†	2,300	341	
REXAM†	1,600	481	+10
RMC†	213	1108	+4
RTZ†	1,500	912	+8
Racal	952	272	+2
Rank Org.†	1,500	441	+2
Reckitt & Colman†	1,400	672	+12
Redland†	2,500	435	+1
Reed Intl.†	1,300	880	+5
Rentokil†	1,800	233	
Reuters†	3,100	476½	+7½
Rolls Royce†	7,100	186	
Ryl Bk Scotland†	785	404	-1
Royal Insurance†	4,000	340	+6
Sainsbury†	3,300	450	+3
Schroders†	32	1135	-3
Scottish & New.†	2,500	595½	-½
Scot. Hydro-Elect.	124	331	-2
Scottish Power†	893	337	+3
Sears†	15,000	109	-1
Sedgwick	1,300	155	+1
Seeboard	78	378	+3
Severn Trent†	1,100	574	
Shell Transport†	6,500	781	+9
Siebe†	2,700	622	+21
Slough Ests	1,700	240	+6
Smith (W.H.)	420	343	-9
Smith & Nephew†	1,500	199	+¼
SmKl Beecham†	2,600	513	+4
SmKl Beecham Uts.†	2,000	487	+3
Smiths Inds.	437	519	+1
Southern Elect.†	171	652	-3
South Wales Elect.	23	704	-4
South West Water	45	540	
South West. Elect.	6	672	-5
Southern Water	65	637	+3
Standard Chartd.†	3,800	352	
Storehouse	666	271½	+4½
Sun Alliance†	2,200	354	+2
T&N	1,100	174	+5
TI Group†	333	395	+7
TSB†	2,400	259	+8
Tarmac	3,200	119	-1

FT - SE Actuaries Share Indices — The UK Series

	Jun 1	Day's chge%	May 31	May 30	May 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3340.6	+0.6	3319.4	3309.9	3311.1	2960.8	4.13	2.01	15.08	65.78	1302.55
FT-SE Mid 250	3674.8	+0.6	3653.8	3642.6	3642.0	3556.3	3.54	1.86	18.95	52.81	1405.85
FT-SE Mid 250 ex Inv Trusts	3683.2	+0.6	3663.0	3651.0	3651.0	3582.5	3.68	1.93	17.65	54.20	1407.57
FT-SE-A 350	1660.9	+0.6	1650.5	1645.8	1646.2	1509.9	4.00	1.98	15.81	30.72	1323.49
FT-SE-A 350 Higher Yield	1681.3	+0.6	1670.8	1665.6	1666.0	1505.1	4.87	1.75	14.67	37.87	1105.84
FT-SE-A 350 Lower Yield	1639.3	+0.6	1629.2	1624.9	1626.5	1476.1	2.97	2.42	17.39	23.15	1096.95
FT-SE SmallCap	1865.65	+0.3	1860.75	1857.19	1857.85	1872.84	3.27	1.62	23.50	27.62	1481.78
FT-SE SmallCap ex Inv Trusts	1844.30	+0.2	1840.47	1836.28	1836.92	1852.35	3.47	1.70	21.23	28.78	1470.88
FT-SE-A ALL-SHARE	1642.33	+0.6	1632.56	1627.94	1628.35	1503.89	3.94	1.95	16.22	28.90	1330.50

■ FT-SE Actuaries All-Share

	Jun 1	Day's chge%	May 31	May 30	May 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	2878.21	+0.9	2853.00	2850.31	2862.31	2607.32	3.63	2.07	16.62	61.64	1188.78
12 Extractive Industries(7)	3774.09	+1.0	3737.10	3744.52	3775.37	3756.09	3.73	2.08	16.11	91.94	1068.71
15 Oil, Integrated(3)	2884.58	+0.9	2858.65	2853.53	2885.19	2557.28	3.73	2.16	15.48	61.83	1218.64
16 Oil Exploration & Prod(14)	2069.84	+0.4	2061.39	2063.63	2058.12	1902.00	2.39	0.67	77.58	31.57	1217.76
20 GEN INDUSTRIALS(278)	1972.76	+0.5	1962.59	1957.81	1961.13	1973.87	4.00	1.71	18.25	34.03	1033.64
21 Building & Construction(38)	1005.95	+0.4	1002.12	1000.37	997.78	1208.41	3.96	1.86	17.00	20.64	811.54
22 Building Matls & Merchs(31)	1825.25	___	1825.36	1825.62	1835.58	1905.89	4.05	1.94	15.88	37.17	887.28
23 Chemicals(22)	2438.19	+0.1	2435.20	2426.72	2425.18	2447.08	3.89	1.54	20.81	44.29	1111.61
24 Diversified Industrials(18)	1883.79	+0.7	1870.84	1863.84	1874.47	1980.59	5.13	1.59	15.30	40.82	997.97
25 Electronic & Elect Equip(36)	2055.41	+0.7	2040.87	2029.64	2022.08	1978.85	3.54	1.94	18.20	14.72	1023.37
26 Engineering(72)	1977.61	+0.6	1965.58	1964.31	1958.82	1823.51	3.17	1.84	21.41	26.94	1157.22
27 Engineering, Vehicles(13)	2307.39	+0.7	2290.92	2287.70	2295.08	2233.84	3.97	0.54	57.83	47.96	1154.82
28 Paper, Pckg & Printing(27)	3004.24	+0.9	2977.33	2971.72	2995.96	2755.91	3.18	2.29	17.16	41.67	1207.48
29 Textiles & Apparel(21)	1683.55	+0.5	1674.77	1669.38	1663.81	1723.39	4.19	1.60	18.64	38.87	988.15
30 CONSUMER GOODS(93)	3104.98	+0.4	3092.54	3083.76	3084.51	2613.20	4.21	1.82	16.36	67.78	1104.40
31 Breweries(18)	2399.89	+0.4	2389.91	2385.21	2387.50	2194.47	4.14	2.03	14.90	30.89	1108.36
32 Spirits, Wines & Ciders(10)	2758.11	+0.4	2745.96	2743.23	2743.38	2878.10	4.29	1.86	15.66	77.07	959.63
33 Food Producers(24)	2478.04	+0.3	2470.70	2464.12	2460.90	2202.77	4.10	1.97	15.47	55.78	1079.24
34 Household Goods(10)	2631.80	+1.4	2596.59	2589.00	2597.09	2472.10	3.50	0.98	36.59	54.80	974.67
36 Health Care(17)	1761.48	+0.7	1748.38	1738.86	1742.83	1676.76	2.87	2.36	18.46	24.09	1043.54
37 Pharmaceuticals(12)	3831.80	+0.1	3826.92	3811.25	3817.19	2683.87	4.05	1.62	19.06	69.31	1252.99
38 Tobacco(2)	4203.38	+1.0	4160.27	4136.76	4140.68	3515.03	5.39	1.90	12.18	131.29	994.84
40 SERVICES(229)	2043.98	+0.5	2033.37	2027.99	2024.07	1931.09	3.27	2.14	17.84	32.12	1030.05
41 Distributors(32)	2582.08	+0.3	2574.81	2577.91	2575.33	2816.66	3.71	1.99	16.95	46.57	920.44
42 Leisure & Hotels(29)	2333.72	+0.3	2325.61	2333.21	2329.00	2087.00	3.35	1.71	21.84	37.23	1177.80
43 Media(43)	3014.82	+1.1	2982.24	2977.50	2972.56	2960.80	2.61	2.34	20.45	51.41	1089.03
44 Retailers, Food(16)	2036.85	+0.4	2027.88	2016.92	1989.33	1580.67	3.41	2.44	15.02	35.45	1252.52
45 Retailers, General(44)	1671.25	+0.3	1666.15	1658.21	1660.92	1651.20	3.42	2.19	16.68	27.38	825.04
48 Support Services(37)	1629.79	+0.2	1626.03	1617.21	1604.62	1602.07	2.70	2.53	18.32	14.71	1008.10
49 Transport(21)	2284.00	+0.7	2268.45	2261.62	2279.02	2309.35	3.82	1.87	17.54	29.32	914.22
51 Other Services & Business(7)	1255.84	+0.6	1248.94	1251.18	1254.52	1192.08	3.62	1.24	27.79	12.40	1100.94
60 UTILITIES(37)	2382.40	+0.3	2374.41	2368.01	2369.82	2170.55	4.64	1.87	14.39	20.45	944.17
62 Electricity(17)	2261.64	+0.4	2252.22	2249.71	2249.51	2072.26	4.56	2.78	9.86	19.89	967.88
64 Gas Distribution(2)	2017.19	+0.8	2000.95	1981.63	1975.36	1754.90	5.94	0.65	32.27	66.79	980.06
66 Telecommunications(5)	2059.23	+0.3	2053.34	2053.67	2051.61	1926.84	4.12	1.47	20.68	0.13	893.76
68 Water(13)	1952.14	-0.1	1955.07	1939.86	1963.21	1725.48	5.08	2.73	9.02	18.85	1002.68
69 NON-FINANCIALS(681)	1762.91	+0.5	1754.07	1749.76	1750.79	1627.71	3.93	1.89	16.80	30.11	1282.14
70 FINANCIALS(117)	2427.85	+1.0	2403.43	2390.76	2388.29	2102.04	4.37	2.32	12.31	61.91	997.26
71 Banks, Retail(8)	3249.32	+1.3	3207.41	3180.15	3184.02	2689.80	4.24	2.91	10.15	90.54	1010.03
72 Banks, Merchant(8)	3263.01	+0.2	3255.90	3275.72	3280.91	2797.81	3.54	1.90	18.55	56.32	1008.92
73 Insurance(26)	1361.29	+0.7	1352.42	1347.31	1335.43	1229.77	5.22	1.84	13.03	43.40	975.75
74 Life Assurance(6)	2694.68	+0.3	2685.65	2691.69	2671.93	2238.39	5.04	1.36	18.19	91.02	1081.24
77 Other Financial(22)	2029.96	+0.2	2025.59	2022.15	2023.79	1789.68	3.83	2.32	14.07	28.68	1112.28
79 Property(46)	1481.44	+1.3	1462.72	1457.08	1457.73	1540.85	4.11	1.23	24.81	13.91	868.37
80 INVESTMENT TRUSTS(133)	2806.68	+0.8	2785.10	2785.44	2781.38	2734.54	2.32	1.02	52.64	28.32	958.59
89 FT-SE-A ALL-SHARE(911)	1642.33	+0.6	1632.56	1627.94	1628.35	1503.89	3.94	1.95	16.22	29.90	1330.50
FT-SE-A Fledgling	1011.29	+0.2	1009.76	1008.41	1007.62	-	2.95	1.16	36.45	13.55	1025.45
FT-SE-A Fledgling ex Inv Trusts	1005.25	+0.1	1004.35	1002.76	1002.06	-	3.11	1.20	33.50	13.86	1019.69

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3352.3	3349.4	3349.8	3351.6	3348.0	3351.8	3352.0	3348.2	3340.5	3353.2	3340.2
FT-SE Mid 250	3677.0	3678.4	3679.2	3679.2	3678.5	3678.4	3678.5	3677.6	3674.7	3680.2	3674.4
FT-SE-A 350	1660.7	1664.6	1664.9	1665.5	1664.1	1665.6	1665.7	1664.1	1660.8	1666.2	1660.7

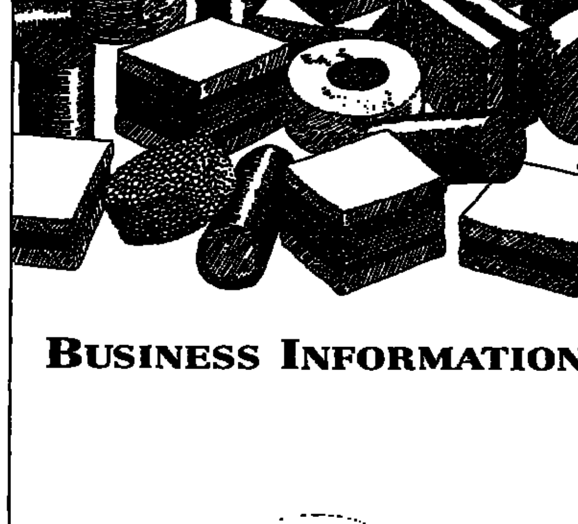
Time of FT-SE 100 Day's high: 9.15am Day's low: 4.20pm. FT-SE 100 1994 High: 3520.3(2/2/94) Low: 2954.2 (23/1)

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	999.2	998.6	998.5	998.1	998.1	998.1	997.6	997.3	994.6	995.0	991.7	+3.3
Pharmaceuticals	3830.2	3826.3	3829.4	3828.8	3840.0	3837.5	3797.3	3796.7	3791.9	3796.5	3791.7	+4.8
Water	1974.4	1968.9	1971.0	1966.5	1960.6	1960.3	1960.3	1959.1	1947.8	1948.9	1950.3	-3.4
Banks, Retail	3299.8	3297.4	3291.2	3301.6	3295.6	3302.5	3302.0	3300.4	3288.9	3290.6	3248.3	+42.5

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL. The FT-SE 100, the FT-SE Mid 250, the FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland Limited. The FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1995. © The Financial Times Limited 1995. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are sucked by The WM Company. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. CONSTITUENT CHANGE 1/6/95: Name change: Bowater to REXAM (28).

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are recorded.



WORLD STOCK MARKETS

US INDICES

Dow Jones	May 31	May 30	May 26	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4465.14	4378.68	4369.0	4465.14 (31/5)	3832.08 (30/1)	4465.14 (31/5/95)	41.22 (2/7/32)
Home Bonds	101.19	100.88	100.61	100.92 (24/5)	93.63 (3/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1662.99	1627.59	1621.31	1668.26 (28/4)	1479.19 (3/1)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	206.43	203.66	201.03	208.43 (31/5)	183.03 (3/1)	223.66 (26/5/95)	10.50 (8/4/32)

DJ Ind. Day's high 4487.91 (4412.92) Low 4360.70 (4334.41) (Theoretical)
Day's high 4468.14 (4389.76) Low 4367.61 (4352.40) (Actual)

Standard and Poors

	May 31	May 30	May 26	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	533.40	523.58	523.65	533.49 (31/5)	459.11 (3/1)	533.49 (31/5/95)	4.40 (1/6/32)
Industrials¶	632.83	621.15	622.50	632.83 (31/5)	548.28 (3/1)	632.83 (31/5/95)	3.62 (21/6/32)
Financial	51.44	50.59	50.46	51.44 (31/5)	41.41 (2/1)	51.44 (31/5/95)	8.64 (1/10/74)
NYSE Comp.	286.44	281.87	281.56	286.44 (31/5)	250.73 (3/1)	286.44 (31/5/95)	4.46 (25/4/42)
Amex Mkt Val	492.10	491.33	490.74	492.10 (31/5)	433.12 (6/1)	492.10 (31/5/95)	29.31 (9/12/72)
NASDAQ Cmp	864.58	866.70	871.87	878.84 (23/5)	743.58 (3/1)	878.84 (23/5/95)	54.87 (31/10/72)

■ RATIOS

	May 26	May 19	May 12	Year ago
Dow Jones Ind. Div. Yield	2.53	2.54	2.47	2.69
	May 31	May 24	May 17	Year ago
S & P Ind. Div. yield	2.19	2.21	2.20	2.48
S & P Ind. P/E ratio	17.72	17.61	16.91	24.06

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
Micron	5,667,900	43⅞	+2⅛
Merck	4,147,800	46⅝	+1⅛
Pepsico	4,127,600	47⅞	+½
Chrysler	4,027,300	43	+⅜
Ford Motor	4,008,200	29	+⅛
Stone Cont	3,753,700	17⅛	+1
Wal-Mart	3,470,500	24⅝	+⅜
Compaq	3,441,100	38⅞	+⅜
Telefonos	3,361,700	28	+⅛
Motorola	3,264,000	59⅛	+⅜

■ TRADING ACTIVITY

● Volume (million)	May 31	May 30	May 26
New York SE	358.180	282.978	290.697
Amex	20.678	18.236	16.474
NASDAQ	392.081	333.480	391.801
NYSE			
Issues Traded	2,988	2,975	2,957
Rises	1,577	1,224	839
Falls	1,222	1,029	1,337
Unchanged	729	724	781
New Highs	187	91	73
New Lows	14	27	14

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	533.30	534.70	+1.35	535.20	532.40	103,137	178,444
Sep	537.40	539.40	+1.70	539.70	537.40	7,227	42,660
■ Nikkei 225							
Jun	15580.0	15890.0	+290.0	15890.0	15440.0	28,977	101,683
Sep	15600.0	15680.0	+210.0	15730.0	15480.0	12,968	60,544

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Thursday, June 1, 1995

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fudo Const	12.2m	699	+41	Nippon Paint	3.7m	540	+44
Sumitomo Const	6.2m	520	+20	Daido Stl Sheet	3.3m	795	+100
Nippon Steel	6.2m	306	+4	Penta Ocean	3.0m	568	+24
Tamura Elec Wks	4.5m	1,020	+102	Mitsubishi Shind	2.7m	478	+58
Nikon Corp	4.0m	840	+59	Tokyo Electron	2.4m	2,800	+70

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close June 1

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15¼	12⅛	AAR	0.48	3.2	25	472	u15½	14⅞	14⅞	-⅛
24	17	ALPharmaA	0.18	1.0	144	177	18⅞	18½	18¾	+¼
43¾	35	AMP	0.92	2.2	22	7580	43	42⅜	42¾	+⅛
70	53¾	AMR			22	5698	69⅛	68¼	69	+¾
47⅞	41⅞	ASA	1.71	3.9	29	882	44⅜	43½	44⅜	+½
40⅞	30¾	AbbttL	0.84	2.1	20	7384	40¼	39½	40	
17¼	12	AbitibiPr x	0.40	2.5	125	1405	16⅜	16⅛	16¼	
24⅜	21	ABM Ind	0.60	2.6	13	10	22⅞	22¾	22⅞	+⅛
16⅝	13½	Acpincoln			8	484	14½	14	14½	+½
27½	21⅞	ACE Ltd	0.56	2.2	8	1309	25¼	25	25⅛	-¼
9¾	8⅛	ACM Gvt In	0.90	9.7	8	297	9⅜	9¼	9¼	
7½	6½	ACM GvOpp	0.65	9.1		233	7¼	7⅛	7¼	+⅛
7½	5¾	ACM Gvt Sp	0.75	10.9		121	7	6⅞	6⅞	
8⅝	7¼	ACM Gvt Se	0.90	10.9		347	8⅜	8¼	8¼	
9⅜	7⅝	ACM Man	1.08	11.8		338	9¼	9⅛	9⅛	-⅛
28⅛	10¼	AcmeClv	0.48	2.0	12	221	24¼	23⅜	24¼	+⅞
27⅝	12⅜	Acme Elect			67	701	27⅜	26¼	27⅛	-⅛
34½	30	Acordia	0.72	2.3	16	10	30¾	30¾	30¾	+⅛
11⅜	8⅝	Actava	0.36	3.4	8	532	10¾	10⅝	10⅝	
16⅜	10⅛	Acuson			22	433	11⅛	11	11	
17⅝	15⅝	Adams Expr	0.48	2.8	0	142	17⅜	17¼	17¼	
68½	53	Ad Micro				66	66	66	66	
37½	25	AdvMic			9	6459	34	32⅝	33⅞	+1
6⅞	5	Advest Grp	0.16	2.5	33	123	6⅜	6	6⅜	+¼
21⅝	16½	Advo Inc	0.10	0.5	17	166	21⅜	21	21⅜	+⅛
81	62	Aegon	2.57	3.2	16	198	u81½	81	81½	+½
4⅜	3⅜	Aerfb			6	407	u4⅜	4¼	4⅜	
60¼	46¾	AetnaL	2.76	4.6	11	2837	59⅞	59¼	59⅝	
43½	31⅞	Aflac	0.52	1.2	14	707	43⅛	41¾	42⅞	+⅞
23⅝	16	Ahmnsn	0.88	3.9	13	3508	22⅞	22⅝	22¾	
1⅜	½	Aileen Inc			0	280	½	[illegible]	½	-⅛
54¼	43⅞	AirPrC	1.04	2.0	18	1175	53	52½	52¾	-⅛
24¼	18⅜	Airbne Frt	0.30	1.6	11	598	18⅞	18¾	18⅞	
27	19⅝	Airgas Inc			26	882	26	25¾	25¾	-¼
15	13⅜	Airlease	1.88	13.2	10	25	14⅜	14¼	14¼	-⅛
30	24	AirTch			122	9840	27¼	26¾	27	-¼

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- D -

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NYSE COMPOSITE PRICES

4 pm close June 1

Continued from previous page

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- X - Y - Z -

125¾	96½	Xerox	3.00	2.6	16	3167	114⅞	113½	114⅝	+1¼
52½	44¼	Xtra Corp	0.64	1.3	13	253	49⅛	48½	48⅞	+⅝
22⅜	19½	Yankee Egy	1.25	6.3	13	273	20¼	19⅞	20⅛	-¼
42½	34½	York Int	0.16	0.4	16	520	41⅝	41⅛	41½	-⅜
4⅝	3⅛	Zapata	0.14	3.9	7	342	3⅝	3⅜	3⅝	+¼
12½	6⅞	ZeltEl			13	1163	7⅞	7¾	7¾	
22¾	19⅝	Zenith Nat	1.00	4.7	11	171	21⅝	21½	21½	
6⅞	6½	Zenix Inc	0.76	11.2		34	6¾	6⅝	6¾	
14⅝	12⅝	Zero	0.44	3.1	15	71	14¼	13¾	14⅛	+¼
20⅜	15⅜	Zurn Ind	0.88	4.2	25	152	20¼	20	20¼	+⅛
11¾	10¼	Zweig Fund	1.04	10.0		679	10⅝	10⅜	10⅜	
8¾	7⅞	Zweig Totl	0.84	9.9		649	8½	8⅜	8½	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close June 1

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NASDAQ NATIONAL MARKET

4 pm close June 1

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AMERICA

Profit-taking hits US stocks at midsession

Wall Street

US share prices were mostly lower in early afternoon trading as the market was hit by profit-taking and renewed fears of weak second-quarter earnings, *writes Lisa Bransten in New York.*

At 1 pm the Dow Jones Industrial Average was down 9.34 points at 4,455.80. The more broadly based Standard & Poor's 500 shed 1.22 to 532.18 and the American Stock Exchange composite lost 1.12 at 490.98. Volume on the NYSE came to 197m shares.

But while most indices fell, the Nasdaq composite, which has a high proportion of technology issues, continued to rebound from Monday's loss of more than 13 points, gaining 4.04 at 868.62.

The Pacific Stock Exchange technology index was also stronger and in early trading it was ahead 1 per cent.

Micron Technology, up $1⅞ at $46⅝, was the most actively traded share on the NYSE for the second consecutive day.

Among other gaining high-tech issues, IBM put on $1½ at $94¾, Motorola $1¼ at $61¼, Intel $2⅞ at $115⅛ and Applied Materials $2½ at $79½.

The Dow and S & P 500 jumped at the opening bell following the 86-point upsurge by the Dow on Wednesday.

Stocks then headed into negative territory after the National Association of Purchasing Management released figures showing that factory activity was 46.1 per cent last month, the lowest level since May 1991. Any reading below 50 per cent is considered as a sign of declining factory activity.

But in spite of the low NAPM figures, investors appeared nervous rather than enormously concerned about second-quarter profits, and by early afternoon both the Dow and the S & P 500 were well off their session lows.

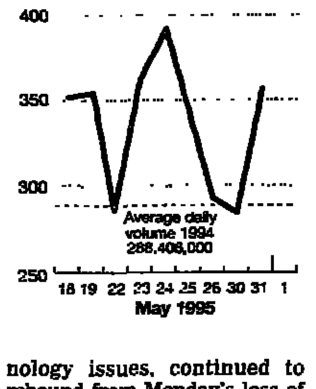
Cyclical stocks outperformed consumer issues by holding nearly steady, while the Morgan Stanley index of consumer shares slipped 0.65 per cent.

Declining consumer stocks included Coca-Cola, off $1¼ at $60⅝, PepsiCo, down $1¼ at $47⅞, and International Flavours & Fragrances, $1 cheaper at $48¼.

Ratings changes affected several companies. Stone Container gained more than 7 per cent or $1¼ at $18¾ after Merrill Lynch upgraded its near term rating on the company to "above average" from "hold".

Cordis dropped $5 to $64 after Donaldson Lufkin & Jenrette lowered its earnings estimate for the company.

NYSE volume



Canada

Toronto was depressed by moderate profit-taking and sluggish North American debt markets, and the TSE 300 index had receded 6.24 points to 4,442.40 at midsession. Banks, financials and gas and electric utilities, interest rate-sensitive, all slid, while gold and other precious metals, and breweries, advanced.

The breweries index was up 57.91 or 1.2 per cent at 4,955.01 at 1 pm. John Labatt was trading C$⅝ higher at C$25⅝ in heavy afternoon turnover amid renewed market speculation that a second bidder would soon emerge.

Caution in São Paulo

São Paulo was down slightly by midday in light trade as investors behaved cautiously after the replacement of Mr Persio Arida, president of the central bank, by Mr Gustavo Loyola. The Bovespa index dipped 176 to 37,030 in turnover of R$128.9m ($142.2m).

Baring Securities commented that the exit of Mr Arida had come as no surprise to the financial community, given his demonstration over recent months of a lack of both administrative and political skills. The broker's Latin American research team felt that the appointment of Mr Loyola would quell any short term turbulence on the markets, given his reputation as an administrator. "It is the unanswered questions that will impact on the market," concluded the team. "For instance, will the government achieve its policy goals successfully and will it be possible gradually to lower interest rates without fuelling inflation?"

MEXICO CITY was little changed by midsession as investors struggled to find buying incentives. The IPC index was up 4.57 at 1,949.70. The market had not been encouraged by the government's national development plan announced on Wednesday.

S Africa sees modest rise

Shares made slight gains in thin trade, with Wall Street's sharp overnight advance not even providing a measure of support. Foreign funds were active, however, brokers said, with Liberty Life being targeted and the shares adding 50 cents at R100.

Traders said that prospects for industrial stocks hinged on domestic economic trends, as well as the resolution of a dispute between the ANC and Inkatha over the KwaZulu-Natal province.

The overall index improved 21.2 to 5,492.6, industrials put on 20.3 at 6,928.1 and the gold shares index was 15.6 better at 1,402.7.

Among the actives, De Beers moved forward 75 cents to R93.75 and Anglos was ahead R2.50 at R198. Vaal Reefs appreciated R3 to R233, Freegold R1 to R39 and Western Areas 50 cents to R43.75.

EUROPE

Several bourses move up into new high ground

The Dow, overnight, the dollar and bonds excited bourses yesterday morning, *writes Our Markets Staff.* They lost some of their power by the end of the day but, in the interim, several markets had either flirted with, or achieved, record highs.

FRANKFURT's Dax index peaked at an Ibis-indicated 2,135.37, about 10 points short of its 12-month high. Reflecting the dollar's effect on exporters, and the bond market's on interest rate-sensitive stocks, carmakers, engineers and utilities left the key index 19.29 higher at 2,119.24, after a session close of 2,126.38.

Turnover swelled by a full DM3bn to DM9.4bn. In carmakers, BMW rose DM9.20 to DM771.60 and Daimler, which has seen a spate of downgrades after warnings about the dollar's impact on its profits, ended DM7.10 higher at DM692.40. In utilities, Viag gained DM8.50 at DM546.50 after an 80 per cent increase in net profits at its trading subsidiary Klöckner & Co.

Three blue chips which underwent 10-for-one stock splits produced a relatively subdued share price performance, but they had risen in anticipation of the event. Deutsche Bank firmed an effective 60 pfgs to DM69.60, Dresdner by 45 pfgs to DM39.70 and Schering by 10 pfgs to DM98.20.

FT-SE Actuaries Share Indices

Jun 1								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1375.65	1376.82	1379.18	1376.87	1378.91	1375.91	1376.00	1374.30
FT-SE Eurotrack 200	1463.48	1464.86	1466.66	1464.89	1466.01	1466.50	1466.06	1465.21
	May 31	May 30	May 26	May 25	May 24			
FT-SE Eurotrack 100	1354.50	1349.01	1341.87	1356.70	1363.20			
FT-SE Eurotrack 200	1442.07	1438.49	1434.98	1453.70	1461.93			

Base 1000 (26/10/90); Highday: 100 - 1379.37; 200 - 1468.63 Lowday: 100 - 1373.66 200 - 1461.30 † Partial

PARIS eased back from early highs in slight disappointment that, once again, there had been no downward movement in German interest rates. A quieter day in the currency markets also contributed to the more subdued tone, with the CAC-40 index closing 12.85 up at 1,960.80 as turnover slipped to FFr4bn from FFr5.8bn.

Some good rises were noted among stocks which had had a slightly disappointing performance of late: Canal Plus ended up FFr31 or 4.7 per cent at FFr694 and Lagardere climbed FFr4.30 or 3.9 per cent to FFr114.90.

Investors bought Eurotunnel following Wednesday's annual meeting, with the shares adding 45 centimes or 3.2 per cent at FFr14.55. The group said yesterday that it had lodged a complaint challenging a decision by the EU to allow duty-free sales for air and sea routes within the community, but not on its own service through the tunnel.

Oil stocks remained strong, helped by a firmer dollar: Elf Aquitaine advanced FFr7.70 or 1.9 per cent to FFr408.70 and Total FFr2 to FFr309.60.

AMSTERDAM set a 15-month closing high as the AEX index put on 3.43 at 434.95. Among the leaders, Royal Dutch rose another Fl 3.30 to Fl201.10, following Wednesday's Fl 2.50 gain and a positive analysts' meeting with Shell Transport, the UK end of the Anglo/Dutch oil combine.

First-quarter results from the financial services group ING left it Fl 1.10 higher at Fl 86.80; and the retailer Vendex, making its bourse debut, registered a Fl 2.30 premium over its offer price at Fl 41.30.

ZURICH saw activity centre on industrials and, yet again, on the insurance sector as the SMI index rose 21.4 to 2,607.8, a new 1995 high. Nestlé, SFr17 ahead at SFr1,195, led the active stocks list.

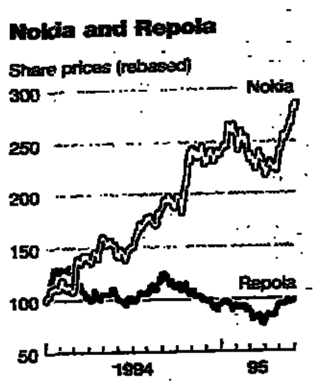
Zurich Insurance extended Wednesday's gains with a SFr34 rise to SFr1,398 and, in the same sector, Berner Holding rose SFr50 to SFr1,400 on the news that German's Allianz wanted to increase its stake from 30 to slightly more than 50 per cent.

MILAN saw another day of fairly quiet activity as the corporate scene remained generally dormant. The Mibtel index lost 71 at 10,049 and the Comit index 2.02 at 632.81.

The market had been lifted during the morning by strength in the futures market, but this support evaporated later in the day.

Among the chief movers, Fiat shed L85 to L6,390 ahead of today's annual shareholders meeting. The construction and cement sectors made progress after the senate approved new bidding procedures for public works projects, and Italcementi gained L150 at L11,000.

Nokia and Repola



Source: FT Graphite

STOCKHOLM's Affärsvärlden General index hit a new peak of 1,606.40, up 25.70 or 1.6 per cent. Brokers said that the market was US-driven as Ericsson Bs rose SKr21 to SKr546, and Astra by SKr5.50 to SKr220.50. Skanska B rose SKr4 to SKr170 on news that the construction group had received a contract to build a British jail.

HELSINKI featured Repola, the forestry and heavy engineering group, and Nokia, the international telecoms favourite, as the Hex index rose 24.4 to 1,865.8. Repola hit a new year's high of FM91 before closing FM2.40 higher at FM90 on a rise of 50 per cent in profits for the first four months of 1995. Nokia rose FM4 to FM204 after it won a $200m US supply contract for PCS base station systems, its first in this field in the US.

ISTANBUL and **ATHENS** showed little reaction to the news that the Greek parliament had ratified an international treaty which would allow it to double the extent of its territorial waters to 12 miles. Turkey has said repeatedly in the past that such an extension could could cause armed conflict.

The composite index in Istanbul gained 1,094.17 or 2.3 per cent to 48,465.09, having seen a high of 48,528.98, in turnover of TL10,500bn, while the Athens general share index eased 1.14 to 890.81 in turnover of Dr2.9bn.

WARSAW lost 3.4 per cent as turnover dipped by 20 per cent to 40m zlotys. The Wig index fell 268.9 to 7,667.8.

Brokers remarked that the recent volatility of equities was causing uncertainty among the domestic investors who dominated trading activity.

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Nikkei recovers as region responds to gains in Dow

Tokyo

Investor sentiment improved thanks to the rise in the dollar, but equities fluctuated on technical and speculative activity before the Nikkei index closed 1 per cent higher, *writes Emiko Terazono in Tokyo.*

The 225 average rose 157.78 to 15,594.57 after moving between 15,420.16 and 15,647.47. An initial boost on concerted dollar-buying intervention by leading central banks was reversed by a fall in futures which triggered arbitrage unwinding, but speculative afternoon buying left share prices higher at the end.

Volume totalled 256m shares, against 247m. The Topix index of all first section stocks gained 6.49 at 1,260.60 and the Nikkei 300 edged up 0.86 to 234.72, while advances led declines by 654 to 313, with 171 issues unchanged. In London the ISE/Nikkei 50 index firmed 1.38 to 1,042.53.

Financial institutions and public funds were absent from the market, while overseas investors took small-lot profits. Some traders took heart in the speculative activity as an indication of the return of individual investors to the market, but most investors expect such trading to be shortlived. Among speculative favourites, Daido Steel Sheet rose by its daily limit of Y100 to Y795 and Tamura Electric Works by its limit of Y102 to Y1,020.

Individuals also bought construction issues, traded actively over the past few months on the Kobe reconstruction theme. Fudo Construction, the day's most active issue, added Y41 at Y699, Sumitomo Construction Y20 at Y520 and Penta-Ocean Construction Y24 at Y568.

Semiconductor-related companies were higher. Nikon, the camera maker, climbed Y59 to Y840. The stock has risen 17 per cent since the start of the month on its earnings forecast supported by demand for its semiconductor equipment. Tokyo Electron, the semiconductor manufacturing equipment concern, rose Y70 to Y2,800 and Advantest, the semiconductor testing device producer, gained Y70 at Y3,010.

Sega, the video game maker, rose Y30 to Y3,200 in spite of earlier selling by individuals. The company announced yesterday that it would shift all production of its video games for households overseas. Discouraged by Sega's weak earnings reported earlier this month, the stock has fallen 18 per cent since the end of April.

In Osaka, the OSE average put on 107.92 at 16,846.12 in volume of 12.7m shares. Murata moved ahead Y100 to Y3,330 on buying by overseas investors.

Roundup

The region was inspired by Wall Street's overnight performance and extended Wednesday's gains, Jakarta and Kuala Lumpur outperforming after a day's holiday; exceptions included Karachi, where trading was curtailed by a bomb scare.

HONG KONG closed at its highest level in seven months, with foreign institutions again showing interest. The Hang Seng index added 152.36 or 1.62 per cent at 9,559.74, having seen an intraday high of 9,625.35. Turnover leapt to HK$7.20bn from HK$4.62bn.

Some brokers expected that foreign funds would continue to enter the market if US interest rates were perceived to be on a downtrend.

Among banking stocks, HSBC rose HK$2.50 to HK$103 and Hang Seng Bank firmed 75 cents to HK$60.75. Elsewhere, Cheung Kong put on 70 cents at HK$38.80, Sun Hung Kai Properties jumped HK$1.75 to HK$57.75 and New World Development climbed 60 cents to HK$24.70.

SHANGHAI B shares rose 1.3 per cent, assisted by the gains in Hong Kong. The B index firmed 0.703 to 55.85 on high volume of 13.8m shares.

TAIPEI recorded its fourth successive gain, and the weighted index added 39.78 at 5,714.33, off a high of 5,727.65. Turnover was T$28.7bn.

Cement issues were strong throughout the session on an expected rise in prices for imported cement. Lucky Cement and Chia Hsin Cement both rose by the daily permitted 7 per cent limit to T$31.50 and T$31.70 respectively.

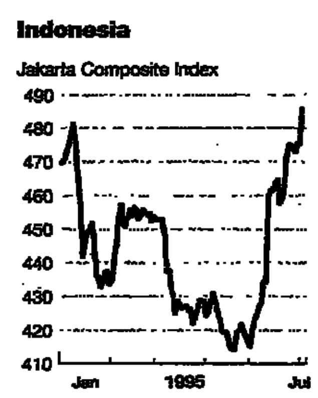
SYDNEY was just slightly firmer as the weakness of the Australian dollar weighed on sentiment. The All Ordinaries index closed 1.5 higher at 2,021.0, having peaked during the session at 2,034.3. Turnover amounted to A$445.33m.

Renison Goldfields was steady at A$4.30, after announcing that it had acquired 50.2 per cent of its takeover target Pancontinental, which rose 8 cents to A$2.00.

SEOUL saw broad-based buying prompted by persistent intervention from the stock market stabilisation fund. The composite index added 8.93 at 891.43. **MANILA** broke through the 2,800 resistance level, the composite index closing 30.35 higher at 2,802.72.

JAKARTA brokers said foreign funds were pouring into the market as the JKSE composite index rose 10.50 or 2.2 per cent to 485.78. **KUALA LUMPUR** put on 2 per cent, the KLSE composite index ending 20.82 up at 1,070.82. Dealers said the lack of negative market talk ahead of the announcement of anti-inflation measures today by Prime Minister Mahathir Mohamad also boosted investor confidence.

Indonesia



Source: Datastream

SINGAPORE saw buying in blue chips, banks and properties, in response to Wall Street and a prime rate cut by UOB Bank, thought likely to be matched by three other big Singapore banks. The Straits Times Industrial index rose 26.67 or 1.2 per cent to 2,205.03.

The prospect of lower interest rates lifted property companies. Developer Wing Tai finished 10 cents ahead at S$2.82 after a day's high of S$2.85.

BANGKOK retreated during the afternoon as profits were realised in the banks. The SET index, which had seen a high of 1,429.55, was finally 9.29 up at 1,401.60. Turnover came to Bt21.8bn. Rises led falls by 184 to 160, with 98 issues unchanged.

BOMBAY gave credit to good corporate results, following Telco's trebled profits on Wednesday, as the BSE 30-share index rose 58.37 or 1.7 per cent to 3,409.85. Among other big blue chips, Reliance put on Rs7 at Rs278.50 and Tisco Rs11.50 at Rs234. **COLOMBO** closed 1.4 per cent higher on institutional buying, the CSE all-share index advancing 9.84 to 703.64.

KARACHI suspended trading 45 minutes from the close after two car bombs exploded in the city, and after an anonymous caller telephoned a bomb warning to the Karachi SE itself. The KSE 100-share index had risen 6.76 to 1,522.15 by the time trading was halted.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MAY 31 1995								TUESDAY MAY 30 1995					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (83)	167.35	-0.2	156.18	89.54	122.94	154.64	0.0	4.06	167.67	156.34	87.96	121.16	154.67	180.82	157.95	175.20
Austria (26)	193.97	-1.5	181.03	103.79	142.49	142.31	0.1	1.25	197.01	182.52	103.38	142.36	142.16	198.89	167.46	174.16
Belgium (35)	194.63	-1.2	181.64	104.14	142.97	139.31	0.6	3.76	197.05	182.56	103.40	142.38	138.54	201.12	161.66	171.35
Brazil (26)	134.39	0.2	125.96	72.23	98.16	225.24	0.4	1.48	134.72	124.81	70.69	97.34	224.29	–	–	–
Canada (102)	141.62	0.4	132.17	75.77	104.03	140.40	0.2	2.52	141.08	130.71	74.03	101.94	140.10	141.62	120.54	131.10
Denmark (33)	280.77	-1.4	262.04	150.23	206.25	210.72	0.2	1.50	284.74	263.80	149.42	205.75	210.35	287.44	236.61	250.46
Finland (24)	207.93	-2.5	194.06	111.25	152.75	199.08	-1.4	1.64	213.36	197.67	111.96	154.17	191.85	214.68	133.88	145.15
France (101)	184.63	-0.5	172.31	98.78	135.63	143.96	0.9	3.07	185.58	171.93	97.38	134.10	142.73	191.17	157.79	168.21
Germany (59)	153.83	-1.4	143.57	82.31	113.00	113.00	0.2	2.10	155.99	144.52	81.86	112.72	112.72	156.35	132.08	137.55
Hong Kong (55)	369.01	1.8	344.39	197.44	271.08	368.46	1.8	3.72	362.65	335.93	190.30	262.05	360.16	416.42	277.40	391.38
Ireland (16)	226.91	-0.8	211.77	121.41	166.69	196.88	0.2	3.63	228.66	211.85	119.99	165.23	196.44	229.27	180.67	183.21
Italy (58)	75.90	-0.3	70.84	40.61	55.76	92.93	0.3	1.75	76.14	70.55	39.96	55.02	92.64	89.22	65.45	88.30
Japan (483)	149.95	-2.8	139.95	80.23	110.16	80.23	-0.9	0.84	154.33	142.99	80.99	111.52	80.99	170.10	136.95	161.35
Malaysia (97)	540.24	0.0	504.21	289.06	396.87	512.88	0.0	1.57	540.02	500.32	283.38	390.23	512.88	594.76	398.16	465.02
Mexico (18)	935.22	0.3	872.83	500.39	687.01	6303.87	0.1	2.13	932.15	863.60	489.14	673.56	6298.43	2414.12	647.81	2134.84
Netherland (19)	247.44	-0.9	230.93	132.39	181.77	178.78	0.9	3.53	249.69	231.33	131.02	180.43	177.20	252.34	194.56	198.57
New Zealand (14)	81.24	-0.5	75.82	43.47	59.68	64.93	0.0	4.60	81.63	75.63	42.83	58.98	64.93	84.31	64.00	70.32
Norway (33)	221.54	-1.3	206.75	118.53	162.74	188.71	-0.1	2.24	224.46	207.96	117.79	162.20	188.80	230.07	177.53	195.70
Singapore (44)	403.30	0.9	376.40	215.79	296.27	259.02	1.2	1.66	399.50	370.22	209.69	288.76	256.06	405.98	313.94	348.88
South Africa (61)	341.37	-0.8	318.59	182.65	250.77	274.56	-0.3	2.51	343.98	318.69	180.50	248.56	275.27	363.22	261.43	263.32
Spain (38)	145.54	-1.1	135.83	77.87	106.91	135.26	0.0	4.18	147.12	136.30	77.20	106.31	135.23	151.79	124.10	144.80
Sweden (48)	256.60	-1.2	239.48	137.29	188.50	278.86	-0.3	2.14	259.75	240.65	136.31	187.70	279.58	261.74	196.70	219.68
Switzerland (46)	195.63	-1.6	182.58	104.67	143.71	141.60	0.3	1.81	198.86	184.24	104.35	143.70	141.23	198.86	155.05	159.26
Thailand (46)	170.28	2.3	158.92	91.11	125.09	163.10	2.6	2.68	166.52	154.27	87.38	120.33	158.96	–	–	–
United Kingdom (203)	213.89	-0.5	199.62	114.44	157.13	199.62	0.3	4.17	214.84	199.04	112.74	155.25	199.04	216.25	181.11	183.84
USA (506)	218.21	1.8	203.65	116.75	160.30	218.21	1.8	2.64	214.29	198.53	112.45	154.84	214.29	218.21	180.55	196.06
Americas (654)	199.88	1.7	186.54	106.94	146.83	167.63	1.7	2.62	196.45	182.01	103.09	141.96	164.77	–	–	–
Europe (739)	187.00	-0.9	174.53	100.06	137.37	157.95	0.3	3.15	188.62	174.75	98.98	136.29	157.39	166.86	160.59	164.64
Nordic (136)	248.36	-1.5	231.79	132.89	182.45	222.58	-0.3	1.85	252.09	233.55	132.28	182.16	223.36	252.82	197.70	208.26
Pacific Basin (822)	160.04	-2.3	149.36	85.63	117.57	91.65	-0.7	1.31	163.73	151.70	85.92	118.32	92.24	176.98	145.93	169.78
Euro-Pacific (1561)	171.17	-1.6	159.75	91.59	125.74	116.40	-0.2	2.15	174.00	161.21	91.31	125.73	116.63	178.33	154.73	167.48
North America (608)	213.47	1.8	199.22	114.22	156.81	212.94	1.8	2.64	209.75	194.33	110.07	151.56	209.25	213.47	176.83	182.65
Europe Ex. UK (536)	168.29	-1.1	157.07	90.05	123.63	134.39	0.4	2.58	170.14	157.63	89.28	122.94	133.87	171.03	144.12	150.31
Pacific Ex. Japan (339)	256.82	0.7	239.69	137.41	188.66	226.34	0.8	3.14	255.01	236.26	133.82	184.27	224.53	273.13	211.19	252.83
World Ex. US (1770)	171.79	-1.5	160.33	91.92	126.20	119.92	-0.2	2.16	174.47	161.64	91.55	126.07	120.14	178.73	155.42	168.65
World Ex. UK (2073)	183.09	-0.3	170.87	97.96	134.50	143.44	0.6	2.14	183.63	170.12	96.36	132.69	142.61	187.07	163.46	172.38
World Ex. Japan (1793)	206.47	0.7	192.69	110.47	151.67	192.55	1.1	2.85	205.13	190.04	107.64	148.22	190.43	206.47	176.74	182.01
The World Index (2276)	185.79	-0.3	173.39	99.41	136.48	148.29	0.6	2.34	188.38	172.66	97.79	134.86	147.48	189.27	165.92	173.42

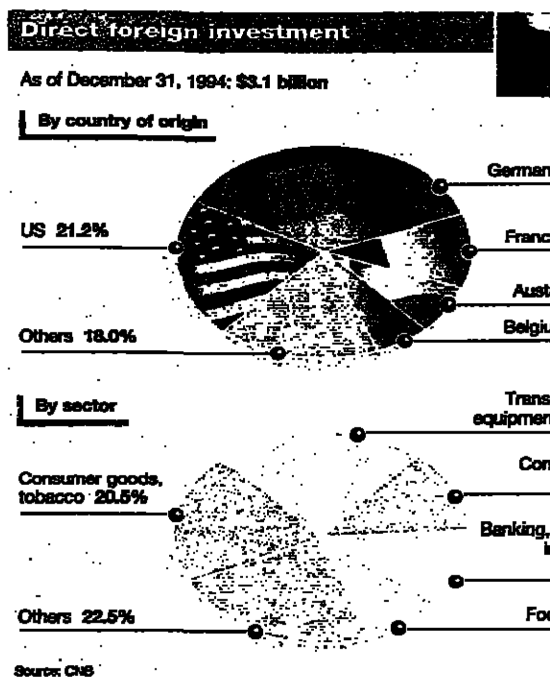
CONSTITUENT CHANGE 1/6/95: Name change: Bowater to REXAM (UK). Latest prices were unavailable for this edition. Market closed 31/5/95: Malaysia.

FINANCIAL TIMES SURVEY

CZECH REPUBLIC: FINANCE, INDUSTRY and INVESTMENT

FRIDAY JUNE 2 1995


Charles Bridge, Prague: after four years of recession the largely privatised but under-capitalised economy has started to grow again UPP



IN THIS SURVEY

Editorial production: Sarah Murray

Change aided by winds of recovery

The transfer from command economy to deregulated market is moving into its second phase. **Vincent Boland** looks at its development

In five short years the Czechs have transformed the most orthodox centrally planned system into the most deregulated and privatised of the former communist economies. No other country has done as much to roll back what the prime minister, Vaclav Klaus, describes as "the paternalism of the state". In the process the Czechs have liberated not only the economy but also themselves, restoring much of the self-confidence that Nazi invasion and more than 40 years of communism had eroded.

The greatest achievement has been the successful completion of the most ambitious mass privatisation programme ever undertaken anywhere. Millions of citizens have become shareholders in a massive transfer of assets from the state to individuals and private investment funds.

The government's boast that 80 per cent of the economy is in private hands is, however, an exaggeration. The National Property Fund still holds big stakes in many partly privatised companies and sits in corporate boardrooms alongside private shareholders, who wield most influence.

But after four years of recession the largely privatised but under-capitalised economy has started to grow again, although personal incomes appear to be rising faster than productivity and thousands of enterprises still need modernisation and restructuring.

Meanwhile, the Czech koruna has become one of the most stable currencies in Europe and is heading towards convertibility. The service sector in particular is booming. Most of the state banks have been privatised and re-capitalised and have been joined by more than 50 banks, some of which are small and poorly managed.

A paperless stock exchange and electronic over-the-counter market are in place, although as yet uncertain about their roles.

Construction and industrial output are also picking up, boosted by more than $3bn of foreign investment which is helping to modernise the economy and bind the country ever closer to the west. Membership of the European Union around the turn of the century awaits the nod from Brussels. What, some government ministers ask, is there left to be done?

The answer, inevitably, is a lot. Some politicians show a worrying tendency to equate the end of coupon privatisation with the end of history. But with general elections due next year the political debate is starting to focus more sharply on economic issues. "It is not enough to be triumphalist about the economy," says Vladimir Dlouhý, the trade and industry minister. "There are a thousand small things to be done to ensure the success of economic reform at the enterprise level."

Differences within the coalition on economic policy are growing, in a battle between pragmatism and ideology. Mr Dlouhý's small Civic Democratic Alliance party is trying to distinguish itself from the prime minister's dominant Civic Democratic Party which sets the tone of economic policy.

Mr Dlouhý points to a swelling trade deficit, which he estimates could reach Kc80bn ($3bn) by the end of the year, as evidence of some still deep-rooted weaknesses in the economy. This gap is usually masked by revenue from tourism which earned more than $2bn last year. But Mr Dlouhý fears that the Czech economy is losing its competitive edge. "Productivity and microeconomic competitiveness are the main problems," he says.

Up until now, an undervalued koruna has artificially protected industry from competition. It has allowed exports to compete on price rather than higher quality.

But full current account convertibility, which the Czech National Bank proposes to introduce by July, is likely to force the pace of restructuring as koruna appreciation exposes these weaknesses.

Gross domestic product grew by 2.6 per cent in 1994, while inflation was halved to just under 10 per cent. Further growth of about 3.5 per cent is expected this year. But reducing inflation will be impossible without higher investment and microeconomic changes at the enterprise level, the Czech National Bank believes.

The need to combat inflation presents the anti-regulatory government with a dilemma. It is faced with often contradictory demands for official action to help exporters, liberate wages and the labour market, regulate monopolies, crack down on insider trading and rogue stockbrokers and even to keep "jewels" such as SPT Telecom in domestic hands.

But the whole point of coupon privatisation was to leave the separation of good and bad companies to the market. This is a task for managers, shareholders and bankers, not government, Mr Klaus argues.

The problem is that the rules governing the economy generally, and the capital markets in particular, were drawn up to facilitate the mass sell-off of state assets. Now that this has been done many argue that new guidelines and rules are needed.

Coupon privatisation gave enormous power to the investment funds which underwrote its success. But it created a unique capital market structure which is still in the early stages of development.

One problem, for example, is the lack of stock market liquidity caused by a fear among investment funds of diluting their shareholdings and a reluctance to sell stock. Ownership remains more important than returns for investors to many of the inexperienced participants in the market.

Regulations do exist, but enforcement is weak, again due largely to lack of experience. Creating a framework that would ensure proper regulation of markets "is something we have not spent enough time thinking about", says Zdenek Bakala, chairman of the investment bank, Patria Finance. The government does not necessarily have to invent new regulations, bankers and investors say. It just has to facilitate implementation of the few ground rules needed to see that all parts of the capital market work more or less in harmony.

To do so could even be politically desirable. Jiři Kunert, president and chief executive of Zivnostenská Banka, the first Czech bank to be privatised, says: "The government must be aware that if something goes wrong with a fund, or a bank, people will not blame the managers. They will blame the politicians."

The country is moving into electioneering mode ahead of next year's June general elections and two items currently dominating the privatisation schedule could yet shape campaign issues. They are the $1bn flagship telecoms privatisation deal now being finalised and the planned $700m investment in the country's two main oil refineries by foreign oil companies.

Both have sparked an intense debate about the desirability of giving domestic shareholders, industries and banks a bigger say in the future of these key industries or of keeping them in local hands altogether.

Mr Klaus, the prime minister, now goes out of his way to reassure foreign investors, and Czech voters, that foreign investment has been good for the Czech Republic, while refusing to grant concessions which would give foreigners an unfair advantage over local investors.

But foreign investment has developed a bad image among many ordinary Czechs. Disillusion set in after Volkswagen curtailed its big investment in Skoda Auto in 1993, expensively hired American managers failed to pull round the ailing Tatra truck plant and Air France pulled out of Czechoslovak Airlines last year.

Daniel Arbess, managing partner in Prague of White & Case, the US law firm, believes Czech expectations of foreign direct investment in the early days were too high, so disappointment when some went wrong was all the greater. "The government has played something of a role by allowing the record not to reflect accurately what these deals entailed," Mr Arbess says.

Czechs are proudly sceptical people. Many feel they can get by on their own without relying on foreigners. Their "velvet revolution" has entailed relatively little dislocation.

The next few years will show how fast they can reap the fruits of the new private economy that they have created through their own brand of popular capitalism.

CZECH FINANCE, INDUSTRY AND INVESTMENT 2

The Czech Republic has earned a well-deserved reputation as a beacon of macro-economic stability and low unemployment in the turbulent post communist world. Five years of monetary discipline and fiscal rectitude have created a solid basis for growth.

But the emphasis is shifting to the micro-economy where enterprises need to be revamped and a weak and largely unenforced regulatory framework needs to be given real teeth. The banking system, with too many small, under-capitalised institutions, also needs further rationalisation. Meanwhile the stock exchange, which enjoyed a brief speculative bubble in late 1993 and early 1994, fuelled by foreign investors, remains hobbled by a lack of transparency and the reluctance of ordinary Czechs and many of the investment funds to trade their newly acquired paper assets.

With an estimated 80 per cent of the economy in private hands, or at least partially privatised, the financial system will need refinement and additions before it can provide the funds needed to modernise newly privatised enterprises and build on the Czech tradition of engineering excellence and banking sophistication.

Meanwhile the recent resumption of economic growth has been accompanied by large and potentially destabilising inflows of foreign capital. This has provoked an intense policy debate which is likely to become more politicised as the general election looms. It is a debate between those, such as the prime minister, Vaclav Klaus, who want to retain nominal exchange rate stability as the policy anchor, and those such as Jozef Tošovský, governor of the Czech National Bank (CNB), who argue that a broader fight against inflation should be the priority.

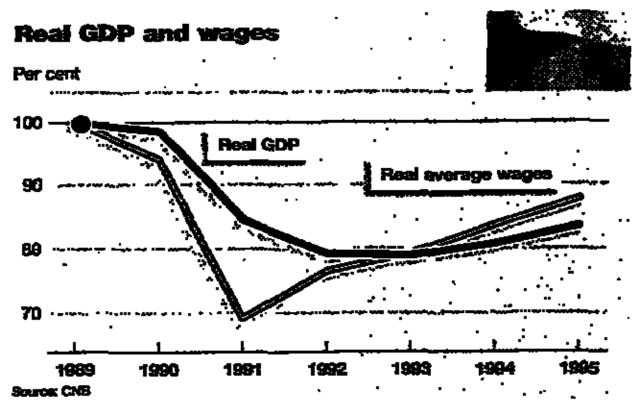
Unlike other post-communist states the Czechs never suffered the ravages of hyperinflation. *Inflation reached* 20.8 per cent on an annualised basis in 1993, due to a surge in the first quarter after introduction of value added tax and the split with Slovakia, but dropped to 10 per cent last year.

But the long-term aim of reducing inflation to single digits, and eventually down to about 3 per cent in line with average EU inflation, is likely to remain stubbornly out of reach in 1995 against a background of strongly rising real incomes and domestic demand.

Growth has provoked a policy debate, says **Anthony Robinson**

Inflation fight a priority

Real GDP and wages



Source: CNB

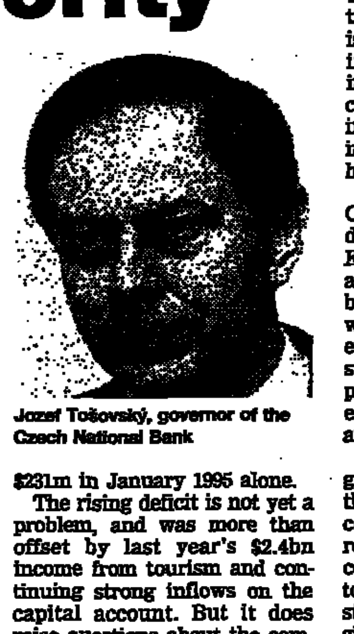
Until 12 months ago the regime of balanced budgets and tightly controlled money supply operated against a depressed macro-economic backdrop of declining gross domestic product. This statistical decline masked structural changes and rising real incomes as the Czech koruna – nominally fixed to a "basket of currencies" in which the D-mark accounts for two-thirds of the weighting and the US dollar one third – appreciated in real terms against leading currencies such as Sterling and the Italian Lira.

The debate on economic strategy coincides with a sustained rise in global trade and higher export demand from reviving EU markets, in particular Germany, which has fuelled economic growth throughout central Europe.

But thus far Poland, Slovakia and latterly Hungary have benefited more than the Czech Republic – surprising given Czech contiguity with Germany and Austria, and the increasingly close links with its German-speaking neighbours. Last year, for example, more than 48 per cent of foreign direct investment into the Czech Republic came from Germany and a further 9 per cent from Austria.

Domestic factors, not exports, lay behind last year's 2.6 per cent GDP growth after four years of decline. The main stimulus was a 7.8 per cent rise in domestic demand at constant prices, according to the CNB. Furthermore, 54 per cent of the increase in domestic demand was covered by increased imports of goods and services, the bank added.

This is reflected in a deterioration in the foreign trade component of the current account, which shifted from a surplus of \$343m in 1993 to a deficit of \$436m last year and a deficit of \$231m in January 1995 alone.



Jozef Tošovský, governor of the Czech National Bank

The rising deficit is not yet a problem, and was more than offset by last year's \$2.4bn income from tourism and continuing strong inflows on the capital account. But it does raise questions about the competitiveness of the Czech economy, whose enterprises appear to have restructured less than Polish companies, which have depended mainly on their own resources, or in Hungary, which has been aided by \$8bn of foreign investment over the past five years.

Another negative aspect of the Czech Republic's consumption-and inventory-led recovery is the relatively low level of investment. The growth of investment slipped to 4.4 per cent in 1994 from 7.7 per cent in 1993, despite a substantial improvement in the financial health of the enterprise sector.

Last year the gross profits of Czech enterprises more than doubled from Kc39.1bn to Kc82.3bn. The CNB also noted a sharp fall in inter-enterprise bad debts, whose accumulation was a worrisome feature of the early years of transition, which stemmed from a reluctance to push loss-making state-owned enterprises into bankruptcy and liquidation.

The rising tide of economic growth, which accelerated over the second half of 1994 and is conservatively expected to reach between 3.5 and 4 per cent this year, clearly helped to prop up weaker as well as stronger enterprises. State subsidies to industry dropped from 8.4 per cent of total financing needs to 4.1 per cent last year. Companies were also better placed to fund their own investment plans. Overall, enterprises financed 68.3 per cent of investment from their own resources, up from 61.6 per cent in 1993.

Despite persistent complaints about high bank charges and interest rates, enterprises also raised their borrowing from banks, covering 20.5 per cent of their investment needs from the banks, compared with only 15.6 per cent in 1993, according to the CNB.

Most important of all, the resumption of growth appears to have stimulated higher labour productivity. The CNB estimates that productivity in industry rose 5.2 per cent last year and 6.7 per cent in construction. In January alone an 8.4 per cent jump in industrial output was achieved with a lower labour force than a year ago. Labour productivity jumped 10.4 per cent.

If this trend continues, scepticism about the speed and extent of microeconomic restructuring could prove misplaced. But higher productivity will be difficult to sustain without sharply higher investment and a special effort to remove the infrastructural and other bottlenecks which the central bank believes is essential if non-inflationary growth is to be assured.

Vladimir Dlouhy, minister for trade and industry: 'From now on we should adopt a tougher yardstick'

Karel Dyba, minister of the economy: 'employment in the biggest 20 companies has been cut'

Employment trends (000s of employees) by selected sector

	Total	Mining Manufacture Electricity Gas, water	Agriculture	Construction	Wholesale Retail Trade Repairs	Financial services	Health Social work
1990	5,351	2,113	629	403	524	28	280
1993	4,853	1,710	331	453	609	65	263
% change	-9.3	-19.1	-47.4	+12.4	+16.2	+132.1	-6.1

Source: Czech Statistical Office

Anthony Robinson on investment and industry

New energy arrives

Hitler insisted that Czech industry should make more guns. Stalin ordered it to make the steel and heavy machine tools need to re-equip war torn Russia and industrialise his new central European empire. Between them they managed to pervert the natural course of industrial development in Bohemia and Moravia, among the most highly industrialised "metal-bashing" regions of Europe for almost half a millennium.

Bohemian industry, centred around Prague and the mining and metallurgy-based towns around Ostrava, and Moravian industry concentrated in the suburbs of Brno, draws on centuries-long experience in fine glass, high quality armour and weapons and precision engineering.

As a result the first Czechoslovak republic became of one of Europe's most advanced economies. In the inter-war years it specialised in high value products, including luxury glass and consumer goods, motor cars and trucks, special *steels, arms – and a wide* range of engineering products.

It was a high value added product mix suited to a land-locked country with limited energy and raw materials. But industrial companies were nationalised by the communist *regime and forced to develop a* heavy industrial bias. They became increasingly dependent on Soviet raw materials and markets and divorced from the rapid technological changes taking place in the west.

The communist era consequently left the Czech Republic, and even more so Slovakia, with a plethora of over-sized, often technologically obsolescent plants geared to providing millions of tons of steel and thousands of tons of heavy machine tools as well as heavy duty trucks, nuclear reactor cores, trams and basic consumer goods.

One of the big question marks over the first five years of post-communist rule is whether the government has allowed enough "constructive destruction". While much has been done to downsize and seek new markets, socialist-era monoliths, such as the Tatra truck company, and the CKD tram complex, remain saddled with heavy, accumulating debts and hoping for an upturn in demand from the former Soviet bloc.

Instead of sanctioning the *closure of enterprises, often* the main source of livelihood for entire towns, the government opted to keep wages low in the still state-owned sector by a punitive tax on wage increases. Low wages reduced the cost of bloated payrolls. They also encouraged younger and more ambitious workers to seek better paying jobs in the fast-expanding service and other sectors.

Millions of workers have voted with their feet. "Employment in the biggest 20 companies has been cut by between 30 and 40 per cent over the past *five years. The* Ostrava coal mines have cut back by 50-60 per cent," says Karel Dyba, minister of the economy. At the same time employment in the new financial sector for example has quadrupled and thousands of new tourism-related jobs have emerged.

Vladimir Dlouhý, the minister for trade and industry, is not so sanguine. "Over 3,000 state owned enterprises are waiting for liquidation. In the meantime they are sucking up subsidies and keeping people inefficiently employed," he says. Until now, he adds, "we have been comparing ourselves favourably with the other former communist countries in the region. From now on we should adopt a tougher yardstick and compare our productivity with that of the EU countries we aspire to join".

The signs are that with mass privatisation now formally over, managers of the newly privatised companies will act more determinedly in future to cut costs and raise productivity. They are expected to shed *excess labour, invest in new* plant and equipment and attract foreign partners.

Last year alone newly privatised companies borrowed \$1.6bn from foreign banks to finance their development plans. Over the past five years foreign direct investment amounts to \$3.47bn. The biggest single investment is by Volkswagen which has attracted a raft of collateral investment in the components sector. Not surprisingly, foreign investment in the auto sector as a whole accounted for 22 per cent of total foreign investment, with consumer *goods industries and tobacco* absorbing a further 20 per cent.

Foreign investment has been encouraged by the republic's low foreign debt, stable currency, cheap skilled wage rates and proximity to Germany and other EU markets. These advantages are also recognised by the principal credit rating agencies which have given the Czech Republic investment grade rating – something unique among former communist states.

"Until now we've had to restructure industry and the economy in the teeth of a recession. Now we are completing the process aided by the fair wind of an economic recovery. That is a big difference," says Mr Dyba, a long-time friend and colleague of Vaclav Klaus, the prime minister.

Mr Dyba is also in charge of the steering committee set up to supervise privatisation of the telecommunications industry, which should shortly see an injection of \$1bn and much new technology. His colleague Mr Dlouhý is in a similar political hot seat as he seeks an industrially sound and politically acceptable deal for modernisation of the petro-chemical industry which could involve a \$700m foreign investment in another key sector.

Another big foreign financing in the pipeline is expected *to provide \$250m for construction* of a high-tech mini steel mill at Nova Hut steel works in Moravia which will cut the Czech Republic's reliance on imports of Slovak flat rolled steel and is part of a wider *rationalisation of this bloated* sector.

The combination of foreign financing and know-how for the modernisation of specific key sectors and the efforts of thousands of newly privatised *Czech-owned companies*, should inject new energy into economic restructuring over the rest of this decade.

It is this prospect which leads foreign observers such as Charles Harman, chief executive of MC Securities, the newly formed London-based investment bank which has a 49 per cent stake in Prague's Patria Finance, to conclude the the Czech Republic has "the best business environment in *the post-communist world*".

Anthony Robinson looks at the republic's financial policy and its makers

Central bank plays a pivotal role

Prime Minister Vaclav Klaus never misses an opportunity to tell the world how much better the Czech reformers are than those anywhere else, usually before going on to lecture his audience on the shortcomings of their own domestic arrangements.

He is listened to, with varying degrees of respect and belief, because as finance minister and latterly as prime minister, Mr Klaus is considered the main architect of the Czech Republic's reversion to what he likes to call a "normal country" with a "standard market economy".

Despite the gap between Mr Klaus's *free market rhetoric* and the reality of considerable government interference in many "non-standard" ways – including tight wage controls enforced by punitive taxes and a marked reluctance to allow loss-making state enterprises to fall – his forceful political leadership, support for mass privatisation and Thatcherite single-mindedness have gained him broad support at home and fame abroad.

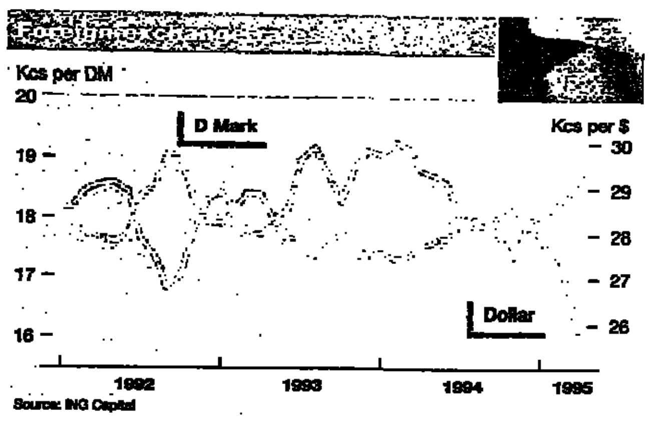
Less well-known is the contribution made to Czech financial and monetary stability by the Czech National Bank whose highly respected governor, Jozef Tošovsky, has a powerful but subtle influence on policy making and execution.

Mr Tosövsky, is very tall, very soft-spoken and very clever. He is in the tradition of cultured central European bankers – men such as Karel Engliš, the inter-war Czechoslovak finance minister and central bank governor who helped to ensure that Czechoslovakia remained an island of stability when neighbours such as Germany and Poland were engulfed by the hyper-inflation and political turmoil from which Adolf Hitler derived such fatal advantage.

At the time of the "velvet revolution" Mr Tošovsky, then just 39 years old, was relieved of his job as deputy director of Zivnostenká bank and appointed president of the state bank of Czechoslovakia in December 1989, immediately after the collapse of communist power in the country.

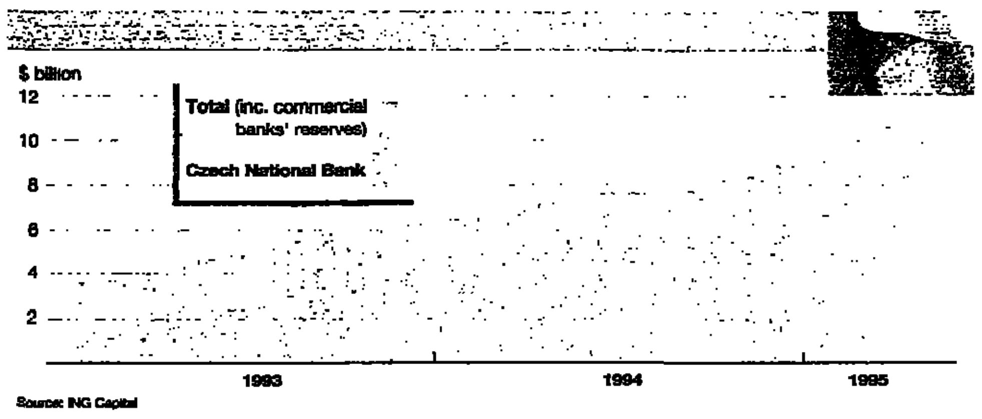
With the dissolution of Czechoslovakia in January 1993 he stayed in his office on Na Prikope, Prague's equivalent to London's Threadneedle Street or Zurich's Bahnhofstrasse, as founding president of the new Czech National Bank.

As guardian of the currency, Mr Tošovsky was responsible for overseeing the replacement of the former Czechoslovak currency by two separate national currencies in February 1993, when plans for a customs and currency union between the Czech Republic and Slovakia broke down.



Source: ING Capital

Faced with a run on reserves, he moved fast to shore up the Czech Koruna with foreign loans. However, within a year he faced an embarrass de richesse as the new republic's financial stability, and relatively high interest rates, attracted an inflow of foreign currency which pushed the national bank's reserves up from about $400m in early 1993 to $8.5bn at the end of April this year, after early repayment last year of more than $1bn of loans from the International Monetary Fund.



Source: ING Capital

Under the Czech system of government, the governor of the central bank, together with the head of the government's statistical service, sit in at cabinet meetings.

They have the right to speak, but not to vote. When Mr Tošovsky speaks the politicians – who include a fair sprinkling of professional economists such as Karel Dyba, the economics minister and economic literates such as Vladimir Dlouhý – the minister of trade and industry, listen carefully.

The central bank president usually confines himself to monetary and financial issues. But on occasions he has been known to launch into a finely argued political assessment of issues under discussion. Mr Klaus – who is a subtle politician and respected by cabinet as a fair but forceful chairman who accepts with grace being placed in a minority by cabinet decisions – listens hard.

In recent months debate has focused on the exchange rate and proposals for currency convertibility. Mr Klaus, aware of the elections coming up in 1996 and naturally cautious, has argued in favour of maintaining the fixed nominal exchange rate as the main policy anchor and says market forces will ultimately dictate the shape of the economy.

"The debate is about whether laissez faire will bring about the little switch towards investment and export-led growth that we need," Mr Tošovsky says.

Meanwhile, the once heavily under-valued Czech Koruna has steadily appreciated in real terms, given the gap between domestic inflation and inflation in Germany and other EU trading partners. As for convertibility, a new law is currently going through parliament.

"By early July, or the autumn resumption of parliament at the latest, the Koruna should be convertible for most current account transactions together with liberalisation of many capital account items," Mr Tošovsky says.

In effect the debate has moved on. Next year's budget will again show a surplus, although personal and corporate income taxes will be cut back from a maximum of 41 to a maximum of 39 per cent.

The main issue is how to ensure that inflation remains under control now that economic growth has returned and real incomes are starting to rise sharply.

The problem is that the engines of resumed growth are higher domestic spending and higher inventories, which are sucking in imports. At the same time growth in investment and exports is moving slowly.

Mr Klaus is inclined to leave things to the market, and specifically to the managers and owners of the newly privatised enterprises.

Mr Tošovsky, who is backed in this by the trade and industry minister, argues that the government should do more to promote exports, encourage investment and remove bottlenecks to growth.

This includes the hoarding of labour and resources by thousands of state-owned enterprises which are being propped up by a variety of government subsidies.

Meanwhile, the main concerns of those in the financial community outside the charmed circle of the cabinet are to ensure that, with mass privatisation virtually complete and a decade of growth in prospect, the government puts teeth into the regulatory mechanisms.

These will be especially needed if the next stage – public utility privatisation – is to proceed smoothly.

Vincent Boland *on the sales of SPT Telecom and two oil refineries*

Deals on a daunting scale

Two deals, which between them could raise by half the amount of foreign direct investment into the country since 1990, are currently dominating the privatisation agenda.

The imminent sale of a 27 per cent stake in SPT Telecom to a foreign strategic partner and a proposed $700m investment in the country's oil refining industry by a consortium of western oil companies are proving to be something of a mouthful.

The SPT sale, likely to fetch $1bn, necessitates the introduction of a complex tariff and regulatory policy that will govern telephone prices up until the end of the decade and will set the ground rules for the entry of competition in to the industry.

The economy ministry has won praise from the five international telecoms groups that are bidding for the stake for the openness of the tender, but bidding company executives privately express concern that the future regulatory environment is still not clear.

This makes it difficult for the bidders to assess the nature of the telecommunications market beyond 2000, when SPT will lose its monopoly of telecoms services.

Final binding bids for the stake were due to be submitted by May 31. The bidders are:

- TeleDanmark, which has made an opening offer of $900m for the stake;
- Stet International of Italy, which offered $950m;

and three consortiums:

- Telfar, grouping France Telecom and Bell Atlantic ($850m);
- *CeTel*, grouping Deutsche Telekom and Ameritech ($1.05bn);
- and TelSource, grouping PTT Telecom Netherlands and Swiss Telecom ($750m).

AT&T of the US has an association with the TelSource consortium, while British Telecom is unofficially associated with the TeleDanmark bid.

The size of the final binding bids is expected to change, especially given the gap between the highest and lowest. "One billion dollars looks like being the benchmark," says a banker advising one of the bidders.

Once the winner is chosen it is expected to be given wide management control of SPT in order to implement a development plan for modernisation of the country's phone network that sets stringent targets for expansion of lines – currently about 18 per 100 people – and for reduction of waiting lists. Some 600,000 Czechs are currently waiting for hook-ups, which can take two years to be installed.

The government announced its long-awaited plan for the future of the Czech telecommunications industry only last September

The SPT sale is proceeding remarkably quickly given its size and complexity. The government announced its long-awaited plan for the future of the Czech telecommunications industry only last September.

The sale has not been free of controversy, however. Telis, a small Czech telecoms group, tried to have the tender stopped because it claimed it had been unfairly excluded from bidding.

Moreover, Karel Dyba, the economy minister, has been forced many times to defend the decision to introduce a foreign partner against assertions that the country has both the resources and management skills to modernise SPT without outside help.

"I think the government seriously underestimated the extent of local feeling on this issue," says a Czech banker. It remains to be seen what involvement, if any, Czech banks will have in the future of SPT.

The company will need to borrow heavily to finance its modernisation. Czech bankers will have a fight on their hands to grab as much of that business as they can.

The privatisation of the Chemopetrol and Kaucuk oil refineries has raised different arguments. Again the deal involves the potential sale of a strategic industry to foreign investors.

Czech oil interests are substantial, powerful and entrenched, with roots going back to the days of the Comecon trading bloc, and have resisted the sale.

One of the aims of the sale of the refineries is to lessen the country's dependency on Russian oil, which currently supplies all its oil needs.

A new pipeline is being built from Germany to supply Chemopetrol and Kaucuk with fresh sources of crude from Middle Eastern supplies. The refineries are in need of modernisation, however, hence the search for new investment.

The western consortium, known as International Oil Companies (IOC), comprises Shell, Conoco, Agip and Total, and has exclusive negotiating rights until June 30, when a deal is supposed to be concluded.

The negotiations concern the sale of 49 per cent of the two refineries, whose assets will be combined for the purposes of sale, to the IOC for $173m. A $520m investment programme over a five year period would then be co-financed by the IOC and Unipetrol, the new state-controlled company that will retain a controlling 51 per cent stake.

The Czech side in the negotiations is being advised by CS First Boston, the investment bank, and White & Case, the US law firm.

Chemapol, the importer of Russian oil, has opposed the sale to the IOC and made its own offer last year to the government on the refineries' future. Uncertainty over Chemapol's financing arrangements, however, eventually led the government to reject the proposal. Supporters of the Chemapol offer touted it as the "Czech way", which sparked a debate over the respective merits of domestic and foreign capital.

Chemapol promised to keep the refining and petrochemical interests of both Chemopetrol and Kaucuk together, whereas the IOC offer calls for them to be split, with the consortium buying only the refining divisions.

If the talks are successful, the entire refining and petrochemical industry will be transformed. Unipetrol will assume control not only of the refineries but also of the petrochemical divisions of Chemopetrol and Kaucuk as well as Benzina, the country's petrol retailing chain.

It will be the task of Unipetrol management, which has not yet been appointed, to oversee the restructuring of both the petrochemical industry and, in association with the IOC, the refineries. That task is enormous. The industry is estimated to need at least $1bn for modernisation.

Negotiations have continued for almost a year and deadlines have been postponed several times so far. The gap between the two sides has narrowed but differences still remain over environmental liabilities, the value of the assets under negotiation, and transfer pricing. Failure has been predicted several times.

Finding a solution that is "advantageous for both sides" is not easy, says a non-committal Dusan Nepejchal, general director of Chemopetrol.

End of a monopoly: the winning bid is expected to be given wide control of SPT in order to moderise the country's phone network Koster Eddy

In spite of reforms, the banking sector is still dominated by the 'Big Four', says **Vincent Boland**

Still no room for the smaller operator

The Czech banking sector was the first key industry to be partially privatised and restructured when economic reforms began. The old Czechoslovak State Bank was relieved of its commercial and foreign exchange and trade arms to become a central bank proper (its descendant in the Czech Republic is now the Czech National Bank).

The slimming-down created three big commercial banks - Komercni Banka and Investicni Banka, now the main bankers to industry, and Ceskoslovenska Obchodni Banka (CSOB), the Czech and Slovak trade bank. A special state-owned institution called the Consolidation Bank took over much of the bad debt these new banks inherited, enabling them to recapitalise and begin the task of becoming standard universal banks.

At the same time new banks were encouraged by a liberal licencing policy from the CNB so that today just under 60 banks operate in the Czech Republic in a fiercely competitive environment.

Yet, despite wide financial sector reform since the early days, the country has what one Prague banker calls "a deeply disfunctional banking system".

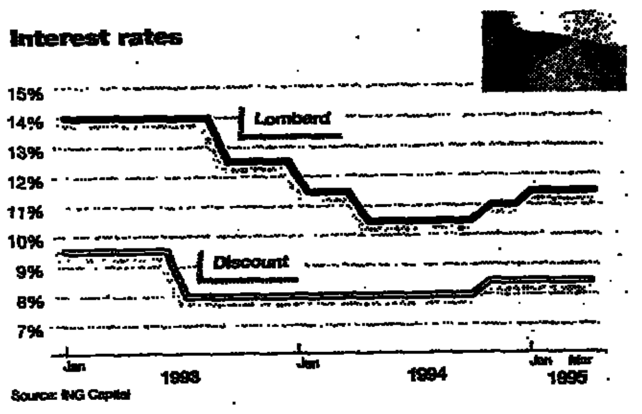
There are several reasons for this. First, Komercni, Investicni and CSOB, along with Ceska Sporitelna, the savings bank, retained a virtual monopoly of their respective markets, leading to accusations of running a cartel. Second, the market lacks a mid-sized banking tier. Few mid-sized institutions lie between the Big Four and the numerous small banks set up to compete with them.

Third, Komercni, Investicni and Ceska Sporitelna have large investment fund management arms through which they control big stakes in the country's leading companies. This, rivals claim, allows them to force lending decisions on company executives, who are thus prevented from seeking more competitively priced resources elsewhere.

Finally, the rapid expansion of the sector has led to heavy investment in new technology, branch networks and personnel, but not necessarily to an improvement in service. The country is overbanked and, arguably, underserviced.

Jiri Kunert, president and chief executive of Zivnostenská Banka, a niche operator and the first Czech bank to be privatised, says the Big Four "are running the country and it is still hard [for others] to break in to the market". Zivnostenská, one of the few mid-sized banks, is luckier than most. It is 40 per cent owned by BhF Bank of Germany and is active in joint venture financing as well as having a sizeable fund management and investment banking arm.

Interest rates



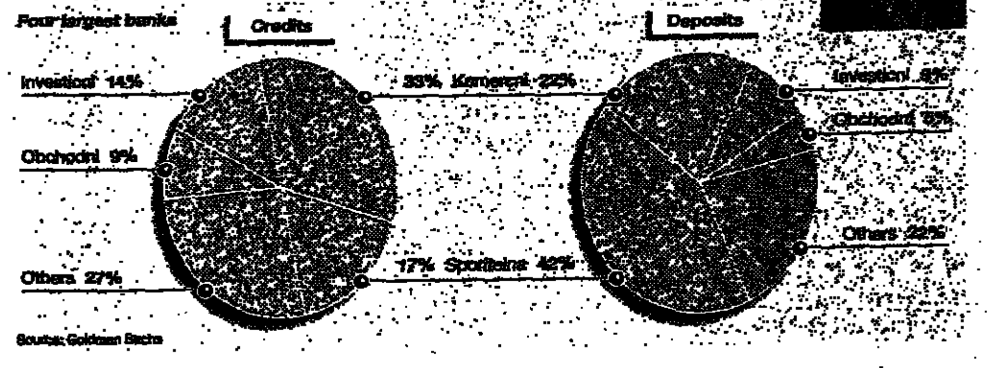
Source: ING Capital

Executives of the main banks reject the claim that they have a monopoly of business. "I want to energetically deny that there is a cartel," says Richard Salzmann, chairman of Komercni Banka. "All the banks compete." As an example, he says that his bank is gaining market share in foreign trade while CSOB is winning more and more corporate lending business.

They point out that in many countries the banking market is dominated by two, three or four big institutions with smaller banks becoming niche operators in those markets. This is a fact of life that small banks will have to get used to and exploit, they say.

Attempts by smaller banks to establish a firm foothold in the market have been faltering. Sometimes the only lending opportunities are those rejected by the Big Four or the foreign banks that have set up in Prague. Taking on these risks can prove disastrous.

Banking: credits and deposits 1994



Source: Goldman Sachs

In 1994 two small banks – AB Banka and Kreditni a Prumyslova Banka – collapsed because of securities trading losses and poor lending decisions. A third, Banka Bohemia, at the time a substantial mid-sized institution, issued $1bn in fake securities abroad. The CNB, embarrassingly, was alerted to that crisis by the US Securities & Exchange Commission. Criminal charges are pending against former Banka Bohemia executives.

Banking supervision was beefed up after these crises, and the central bank stopped issuing new licences. The CNB has since moved swiftly to stem other impending disasters.

The most dangerous of these was at Agrobanka, a mid-sized private bank that flirted with disaster last year. It is still under CNB supervision, along with about six other banks, including the three that failed in 1994.

Ota Kaftan, head of supervision, believes the operations of Czech banks has improved markedly in the past two years, with managers and owners more cautious and less interested in quick returns on their investments.

The main Czech banks have raised their capital adequacy ratios to Bank of International Settlements levels quickly over the past four years. And, piggybacking on the country's coveted investment grade rating, Komercni, Investicni and CSOB all raised syndicated loans at competitive rates in the past year.

Pavel Kavanek, chairman of CSOB, believes the danger for the Czech banking system is over. "Banks should be big gainers early in the cycle from the upturn in the economy," he says.

CNB policy now is to encourage mergers among the small banks with the intention of building up the mid-sized sector. It also encourages foreign banks seeking to enter the market to look at acquiring existing banks.

An example of this policy is the recent acquisition of a 5 per cent stake in Banka Hana, a Moravian bank, by Kredietbank of Belgium.

Most foreign banks in the country have followed existing clients in to the market to finance joint ventures but some, such as Bayerische Vereinsbank and Bank Austria, are expanding by establishing modest retail branch networks. Foreign banks are also luring much of the best business away from Czech corporate customers by offering products, such as derivatives and hedging, that many Czech banks are still inexperienced at providing. This might cost Czech banks customers but it has its positive aspects, western bankers say.

Nicholas Teller, director of the Prague office of Commerzbank, believes the influx of foreign banks has given a substantial transfer of know-how and skills to the Czech banking sector. "We are talking to Czech banks today about products they wouldn't be talking to each other about if we were not here," he says.

Profile: Obchodni Banka

A foot in both camps

Throughout the former communist world, the most "westernised" bank staff and the most sophisticated understanding of modern banking tend to be found at the former monopoly foreign trade banks, such as Poland's Bank Handlowy or Hungary's Magyar Kulkereskedelmi Bank.

The trade banks were the only banks permitted to operate abroad with carefully chosen staff who were judged smart enough to absorb the techniques of western banking, but politically reliable enough to keep their experience to themselves.

The Czech Republic is no exception and the former monopoly foreign trade bank Ceskoslovenska Obchodni Banka (CSOB), although the smallest of the big four banks, is rapidly gaining a reputation as the best run and the most profitable among them.

This will be an important considerations within the next few months when the institution is slated for partial privatisation.

"Banking is all about risk assessment," says Pavel Kavanek, the bank's partially US-educated chairman. "We were around at the time of the Herstatt bank collapse in 1974 and other spectacular failures. We learnt the hard way about exposure to risk," Mr Kavanek says.

CSOB specialises in trade finance and its core business is concentrated on the top 100 Czech companies. Its emphasis is on increasingly sophisticated services, such as structured finance and investment advice, treasury, custody and corporate banking to the top end of the market.

The bank has a unique dual status as a Czech and Slovak institution

"We are net borrowers of funds from the inter-bank market and will probably remain more narrowly focused than other banks which have set out on the universal bank trail," Mr Kavanek says.

The bank's now unique dual status as a Czech and Slovak institution puts it in a strong position to take advantage of the expected end of the Ecu-denominated clearing account trade system which has regulated Czech-Slovak bilateral trade since early 1993.

The system prevented the feared collapse in bilateral trade in the early days of the divorce when both countries were short of hard currency reserves. But it is cumbersome and needs replacing with normal trade and trade financing.

"With our experience and strong presence in both countries we will be able to offer the lowest transaction costs and gain the highest volume," Mr Kavanek says.

"The resumption of normal trading means we can be flexible and offer longer-term credits and better terms," he adds.

Slovakia – with competition from foreign banks less intense than in the Czech Republic – already generates more than a third of revenues. "Slovakia's strong export-led growth vindicates the decision of both governments to keep the banking link through Obchodni," Mr Kavanek says.

CSOB strengthened its international and domestic position last December through a merchant banking joint venture with N M Rothschild, the London investment bank.

For CSOB, the link establishes it in areas such as privatisation, mergers and acquisitions and corporate advisory services, where it had no previous experience. "It was a good step and is working well," Mr Kavanek says.

Anthony Robinson

Profile: Pavel Kavanek, chairman of CSOB

Economists emerge from obscurity

The brutal suppression of the Prague spring by Soviet tanks in 1968 was followed by the triumph of mediocrity as many of the most talented Czechs and Slovaks either emigrated, were jailed or resigned themselves to cultivating their private or professional interests. Top jobs in all professions were allocated on the basis of political loyalty or quiescence. Competence was only a marginal requisite of office.

The events of November 1989 cleared away this accumulated human deadwood and opened the way for the rapid promotion of energetic and ambitious people capable of guiding the transition to a market economy.

Obscure economists such as Vaclav Klaus and Karel Dyba emerged from back room research departments to become politicians, ministers and economic reformers. Men such as the National Bank's Jozef Tošovský, Komercni Banka's Richard Salzmann and CSOB's Pavel Kavanek – who had been beavering away in important but essentially technical jobs in the banking system – emerged to take over full responsibility for restructuring the banks and the entire financial system.

Mr Kavanek, a lean, intense man with a passionate interest in the theory as well as the practice of banking, spent a year as a senior foreign exchange dealer at Zivnostenka Banka in London in 1976 before returning to Prague to spend 13 years as the chief dealer in CSOB's foreign exchange department.

In 1990 he was appointed main board director responsible for the bank's capital and money market operations when the collapse of the communist regime opened the way for talented people to take their place at the top. In 1993 he was appointed chairman and chief executive.

His brief exposure to the Anglo-Saxon financial world in the 1970s, and his years as chief foreign exchange dealer in constant touch with the global forex market, have given him a keen awareness of the cultural factors which are pushing the Czech financial system "in the direction of a German-style bank-based rather than UK-style market-based system".

Pavel Kavanek: 'the dangerous period for Czech banking is over'

After centuries of Austrian dominance under the Hapsburg monarchy the 40 years of communist rule "were just another crown around the head of the emperor," he says.

Their history and temperament has made the Czechs cautious and left them with a strong desire to control any risks, he says. "In the banking world this means constantly checking the risk/reward analysis, getting the checks and balances in place and moving forward in a stable, cautious way."

The really dangerous period for the Czech banking system is now over, he believes. "The situation was dangerous during the economic downturn when we had to make provisions for bad debts. But banks should be big gainers early in the cycle from the upturn in the economy."

Another positive feature, he adds, "is the great improvement in central bank supervision of the banking system".

The Czech National Bank has moved fast to tighten supervision both externally and within the commercial banks themselves since fraud was revealed by the US regulatory authorities at the Bank of Bohemia last year.

"Our proudest achievement is the development of our product range, especially in the safe custodian area both here and in Slovakia," he says.

"This provides an important service to the capital market as a whole and requires a standard of service equal to that available from western banks. We have proved ourselves with clients such as JP Morgan and are bigger custodians than ING bank."

He says that the shortage of skills remains the biggest problem for the bank. "Our people have grown much more confident but I would love to have a queue of good bankers to choose from.

"Instead we spend a lot of money on training people, and aggressive rivals such as ING bank snap them up," he says, ruefully, giving another clear hint that, in the Czech market, it is the hungry foreign banks, rather than local institutions, that provide the strongest competition.

Anthony Robinson

Counting the cash: the bank dominates the retail savings market *Reuter*

Profile: Sporitelna, the top Czech savings bank

Source of liquidity

Jaroslav Klapal: 'retail savers are a cautious lot' *Anthony Robinson*

The most popular form of savings in the Czech Republic remains the Ceska Sporitelna savings book. "There are 12m of the passport-sized documents in circulation, more than the Czech population, although many Slovaks retained their old accounts after the 1993 split," says Jaroslav Klapal, the bank's president. "Some people have two or three and open a new account for every new-born child. Some even read them at night for pleasure," he adds.

Old loyalties and the capillary impact of its 2,000 branches are the bank's strong point, although the number of branches has dropped by 800 over the past five years. The reduction follows the closure of small, non-economic branches and the loss of 600 outlets in post offices when Investicni Banka took over Postovni Banka, the postal bank.

The very popularity of the bank demands a conservative approach to the business. "Retail savers are a cautious lot. We noticed a reflux of savings back to us after the crisis surrounding Bank Bohemia, Agrobanka and other banks last year. We no longer have 100 per cent of the retail savings market, but we still have about 80 per cent. In total we attract about 37 per cent of all primary savings, including deposits of enterprises and business people," Mr Klapal adds.

With such a strong deposit base Sporitelna (pronounced Spozhitelna) naturally became the main source of liquidity for the new interbank money market which emerged as part of the banking reforms and the wholesale licensing of new banks in the early 1990s.

"Roughly a half of our balance sheet of Kc358bn is devoted to the interbank market and roughly a third, or about Kc120bn is lent to individuals and corporations," says Mr Klapal. "But we also have a Kc50bn bond portfolio and play an active role in the bond market. We recently lead a Kc6bn bond issue for CEZ, the electricity utility, for example."

But Sporitelna's exposure to the interbank money market at a time when the Czech republic is over-banked and heading for a painful consolidation process demands heavy provisioning and careful monitoring of the banks' borrowing funds.

"Last year we reported net profits of only Kc1bn after setting aside Kc7bn, bringing our total provisions for bad debts to Kc17bn, or 5 per cent of the total balance sheet," says Mr Klapal.

Furthermore, as part of the bank's efforts to limit risks from interbank lending, Sporitelna has invested heavily in training people to staff its internal credit rating section. "As a result we know a lot about the credit worthiness of other banks and we are only involved in lending to 20 out of the 59 banks in existence."

'Interbank lending is a risky business. But we cannot just stop our activity with shaky banks'

The list is a closely kept commercial secret. But senior officials in Sporitelna's competitor banks believe that not all its lending is voluntary and Sporitelna is obliged to continue funding banks whose uncovered exposure would lead to collapse if Sporitelna pulled the credit plug.

Mr Klapal is clearly aware of the dilemma. "Interbank lending is a risky business. But we cannot just stop our activity with shaky banks. If we killed them it would cause problems for us too. But our commitment is not open-ended and we periodically review ratings and re-set credit limits for them," he says.

With the economy showing signs of growth, personal incomes rising even faster and banks building up their bad debt provisions, the central bank believes that the bad debt problem is receding. That is especially good news for a bank such as Sporitelna.

But the awkward fact remains that the Czech republic has far too many banks to serve a population of 10.3m. Some of those expected to fail and face bankruptcy or absorption by bigger banks in coming months are among Sporitelna's interbank creditors.

Sporitelna's provisions are likely to be tested in the months ahead. A question remains over whether they will prove to be sufficient. But Sporitelna itself ought to be as safe as houses, especially with elections due in 1996 and so many of the electors holding Sporitelna savings passbooks among their most prized possessions.

Anthony Robinson

Profile: Richard Salzmann, chairman and chief executive of Komerčni Banka

An impressive force in the sector

Unaccustomed as they are to public admiration, most senior banking people prefer to remain invisible. Not so Richard Salzmann, doyen of Czech bankers.

He had enough of being invisible during the 1970s and 1980s when, like many of today's leading reformers, he worked at the old Czechoslovak State Bank. That was when, as he once said, he was "a man of influence but no power". Now he wields large amounts of both.

Dr Salzmann is chairman and chief executive of Komerčni Banka (KB) which, along with the Czech National Bank, is one of the country's two leading financial institutions.

A dapper, multilingual 66-year-old who looks remarkably like a Swiss private banker, he is regarded as one of the great salesmen of the reforms in the Czech Republic, earning in the process a public profile that is the envy of his peers.

His leading role in presiding over the reform of the banking industry, one of the first tasks of the transformation process, and his continued influence are acknowledged today by other bankers. "He is the one whose voice is always authoritative and on whom many people rely for advice," says a banker who has worked with him.

Dr Salzmann took control of KB at a crucial time for the banking sector and for the entire reform process. The break-up of the central banking system in 1991 led to the creation of four new commercial banks from its various operational arms.

Na Prikope, Prague's street of banks: Salzmann took control of KB at a crucial time for the sector *Anthony Robinson*

These were thrown in at the deep end of the new market system. A specially created institution called the Consolidation Bank had taken the worst of the sector's bad loans off its hands, but there was to be little further state help.

KB, the main banker to industry, simply had to survive to avoid undermining other reforms and the confidence of the country. It was not an easy task, as the bank's customers struggled to adapt to the market economy and the sudden credit crunch. Dr Salzmann, instinctively cautious and philosophical, established the bank as a supporter of its many ailing customers while making clear to them that money no longer grew on trees.

Other bankers acknowledge that Dr Salzmann's expertise helped to turn KB around, and regard it as a crucial achievement of the reforms.

"He took an institution that could have been a disaster and put it on a sound footing," says a banker who knows him well.

Today KB is the dominant force in Czech banking, but it is not a one-man band, despite its close identification with Dr Salzmann.

The bank has installed a respected management team, and one which is generally regarded as the best among the privatised banks. "There is good communication among the management," says Martin Masek, head of research at CS First Boston in Prague.

KB is the house banker to leading companies such as SPT Telecom, the state telephone company, and has expanded into investment banking, fund management and other financial services. It is the third biggest listed company on the Prague bourse, with a market capitalisation of $925m on May 9, and one of the most heavily traded.

But its pioneering days may be over. As competition in the banking sector intensifies – there are nearly 60 banks in Prague – KB is fighting to retain its market share. Several rival bankers say Dr Salzmann is a behind-the-scenes advocate of greater Czech – and therefore greater Czech banking – participation in two big privatisation transactions involving foreign investors, the sale of stakes in SPT Telecom and in two oil refineries.

He argues that KB, having weathered the initial storm, is now sufficiently liquid to consider big-ticket lending decisions.

A more pressing interest lies behind such a decision – it stands to lose valuable lending business to the bankers supporting foreign investors. "SPT is our number one client," he says.

With SPT expected to spend several billion dollars on its modernisation programme over the next five years, the opportunities for lending will be immense.

The fear among local bankers is that most of the business will go abroad. While he supports the idea of a strategic partner for SPT, Dr Salzmann says: "There should be a share [of its advantages] for domestic interests, for example Czech banks."

Vincent Boland

Profile: Zdenek Bakala, chairman of Patria Finance

Filling a niche

On any other subject Zdenek Bakala remains in his seat. But start him talking about the impending marriage of SPT Telecom and its foreign partner, and the chairman of Patria Finance begins pacing the room.

The sale of the SPT stake to a foreign telecoms group is generating much excitement in Prague, probably nowhere more so than in Patria's office, located in a renovated palace in the city's Old Town.

The one-year-old investment bank, along with the UK's Schroders, is advising TeleDanmark in the international tender. As an announcement of the winner nears, the tension is clearly mounting.

"Winning the mandate [from TeleDanmark] was an honour, but it is not in itself a big deal," Mr Bakala says. "Winning the tender will put us in the big league." As the only fully Czech investment bank acting in an advisory capacity to a bidder, a Danish victory in the tender would cement Patria's arrival on the domestic banking scene.

Mr Bakala, a boyish-looking 34-year-old, established Patria in May last year after stepping down as co-head of CS First Boston in Prague. His new venture has the backing of Hans-Jörg Rudloff, the former head of CSFB who pioneered that firm's drive into eastern Europe's emerging markets, and who remains a key influence.

Mr Bakala's departure from CSFB stems from his disillusion with the changes forced on the firm after Mr Rudloff's departure which have curtailed its once-pioneering ways.

Both Mr Bakala and Ivo Lurvink, CSFB's general director in the Czech Republic, attest that the split was "gentlemanly and mature".

"I really believe that Patria will do well and that there is room for a local merchant bank," Mr Lurvink says. "We both have to live together in a small market." And as in any small market there will be the occasional glitch. For example, Mr Bakala recently hired George Collins, CSFB's head of asset management, to play a similar role at Patria, a move believed to have irritated CSFB executives.

Mr Bakala is convinced that there is a niche in the Czech Republic for an investment bank such as his, operated by locals who speak the language and have intimate contacts in the country's reserved and conservative business world.

He is seeking to convince companies to use the stock market to raise new capital instead of relying on their own bankers.

He believes that several bond issues Patria has executed in the past year are getting the message across "that there is capital outside the banks".

Patria lost one of its most important young executives in February when Martin Ruzicka, head of equity trading who left CSFB with Mr Bakala, was killed in a car accident.

But its expansion in one year has been hectic. It has 47 staff engaged in capital markets activity, corporate finance, asset management, research, treasury, and support operations. By the end of the year the number should reach 60, the minimum Mr Bakala believes necessary to create a substantial operation.

But with the stock market in the doldrums, "that is a lot of mouths to feed", says one banker.

Mr Bakala is an instinctive deal-maker and some bankers wonder if he has the patience to wait as long as it may take to fulfil his ambitions.

He is a friend of Viktor Kozeny, the entrepreneur who privatisation with the Harvard investment funds. Both are remarkably similar in age, background and temperament.

"I think Zdenek looked at Viktor and saw what he has done and wants to achieve something similar with Patria," says another banker.

But as the Czech market matures, opportunities such as those that Mr Kozeny has spotted and exploited are less likely to emerge.

Indeed, the pace of future mergers and acquisitions activity, will be set by funds such as Harvard. These funds have been the most influential shareholders in Czech industry since coupon privatisation and are generally conservative institutions.

Deals such as the sale of the SPT Telecom stake are also unlikely to appear on a regular basis in the future.

Yet there is something of the evangelist about Mr Bakala. He appears regularly on a television stock market programme and is liked and respected in financial circles. He is also aware of the hurdles.

"It will be a struggle," he admits. "Czechs are more Germanic than they are willing to admit."

Privatisation is revolutionising shareholder power

Fund managers fuel corporate change

The hundreds of investment privatisation funds (IPFs) that underwrote the successful coupon privatisation programme are emerging as the key institutions that will shape the Czech Republic's corporate culture.

Unlikely as it now seems, the coupon programme almost failed in its very early days, when recession-hit Czechs were more uncertain about their future. The programme aimed to privatise companies as they were, with market forces left to do the restructuring. Sceptical citizens, who worked in state industry instinctively saw this as a flawed argument.

But when Viktor Kozeny, an young entrepreneur who had founded the Harvard investment company, began offering guaranteed returns if citizens gave their coupon points to his funds, investors were won over. Mr Kozeny was soon followed by other fund managers. About 70 per cent of the coupons in the first mass privatisation round in 1992 were thus entrusted to IPFs. The proportion was slightly lower in the second round, which finished last February.

Today, the IPFs are the institutions that have willy-nilly been entrusted with corporate restructuring, the least developed aspect of the reform process. They are not the biggest shareholders – controlling about 29 per cent of all outstanding Czech shares while the National Property Fund holds 40 per cent and industrial and portfolio investors own 25 per cent, says Martin Masek, head of research at CS First Boston – but they are the most influential. But the top 20 or so, which got 90 per cent of those coupons entrusted, and which in most cases have influential financial backers such as banks, are the new power centres of the economy.

These IPFs include Harvard (which does not have a financial backer); Prvni Investicni (PIAS), run by Investicni a Postovni Bank; Expandia; ZB Trust, run by Zivnostenska Bank; KIS, run by Komercni Bank; Creditanstalt Investment Co; and funds run by the Czech Insurance Co. They are helping to create something of a revolution in the traditional Czech corporate culture by wresting power away from company executives in favour of company owners. Shareholder power rules.

That is the theory, but while it is also increasingly the practice, it is a slow process. Even the best-run IPFs have limited resources of finance and personnel to police all the companies in which they have stakes (some have stakes in as many as 200 companies). High management fees also have persuaded some fund managers simply to sit tight and collect easy money.

Two main hurdles block further progress, fund managers say. First, the law governing IPFs limits the stake a fund can own in a company to 2 per cent. This prevents the greater concentration of ownership that would aid restructuring and help refine corporate governance.

Daniel Arbess, managing partner in Prague of White & Case, the US law firm, says this rule was introduced by a suspicious government to curb the influence of fund managers such as Mr Kozeny, and that it should be repealed.

Investment privatisation funds are wresting power away from company executives in favour of company owners. In theory, and often in practice, shareholder power rules

Second, there is a potential conflict of interest between the banks that manage investment funds and those banks' own corporate lending arms. Some fund managers say bank-controlled funds are too often represented on company boards by members of the banking arm rather than the fund management arm. The relationship between banks and industry is close and is one that neither side appears willing to end.

Hence decisions that may be in the company's and its shareholders' interest but not in the bank's can be voted down. In practice, this often means companies are forced to borrow for investment, or to undertake bond issues often handled by their house bank. The bank's own IPFs sometimes take up the lion's share of these issues, increasing its influence on a company.

Richard Salzmann, chairman and chief executive of Komercni Banka, denies that a conflict of interest exists at his bank and says the relationship between the two is exaggerated. "We really don't try to influence companies through the funds. We have built a Chinese wall in the strictest sense of the word," he says.

Roman Ceska, chairman of the National Property Fund, the state holding company that is a big shareholder and sits alongside the IPFs in many corporate boardrooms, says this issue "is not a practical problem in my experience." Proposed amendments to the banking law, however, are likely to insist on a specific division of the activities of banks and their funds.

Because of the unique role given to IPFs in the Czech privatisation system their status goes far beyond that of a typical western fund, the manager of which buys and sells shares freely but rarely forces management changes. Czech IPFs in theory do both, yet not all have the same goals.

"There is a strong ambiguity among the funds," says Ales Barabas, board member at Zivnostenska Banka and responsible for the bank's investment fund division. Too many IPFs, he argues, are afraid to dilute their holdings in companies, leading to paralysis on the stock market and to a reluctance to consider new equity issues, which some may not be able to subscribe for due to lack of liquidity.

Moves are under way to force IPFs to become either portfolio managers or strategic, long-term investors. These are being resisted by the IPFs, which insist that there is no conflict between the two roles. Mr Ceska says the NPF will recommend that the two activities be clearly defined and that the 20 per cent rule for strategic investors be removed. For portfolio managers, however, that rule would be tightened and could be lowered to 10 per cent.

Nigel Williams, chairman of Creditanstalt Investment Co, believes such legislation is unnecessary and that IPFs are winning the argument with regulators. "There is no fundamental conflict between funds as long-term or short-term shareholders," he says. "The clearest way to define an IPF is to run it according to the criteria by which it was set up," he adds. In other words, do not introduce new rules; just enforce the existing ones.

Vincent Boland

While trading is slow, stock market mechanisms are under scrutiny, says Vincent Boland

Greater transparency on the way

These are dog days on the Prague stock exchange. As summer approaches with little sign of an improvement in the market's performance or in the way it operates, share prices look likely to continue drifting sideways with sellers hovering on the sidelines.

The good news is that the market's structural problems, which are as much responsible for low share prices as are investment considerations, are at last the subject of an intense debate.

Amendments to the securities law, currently being drafted, should ensure greater transparency in trading and share pricing, impose stiff penalties for insider trading, provide more protection for investors and brokers and ensure that regulations are more consistently enforced.

"For the first time in a few months I'm pretty optimistic," says Richard Wood, managing director of Wood & Co, a leading independent brokerage. "A transparent market has got to be good for share prices."

One of the main catalysts for reform of the market mechanisms is Tomas Jezek, a former chairman of the National Property Fund, the state holding company, and one of the leaders of the reform process.

Mr Jezek has proposed that share dealing be concentrated in the Prague stock exchange, one of two markets where shares can be traded and which is effectively the official stock market.

One of Mr Jezek's most controversial measures is a ban on off-market or over-the-counter trading, which currently accounts for between 50 and 80 per cent of all the market's daily activity.

He wants OTC trades, now only reported weekly, to be routed through the PSE, which would force daily disclosure of prices and reflect more accurately the volume of business in a particular stock. Stock market trading reports in newspapers bear little relation to actual activity because of the lack of real-time reporting of trades.

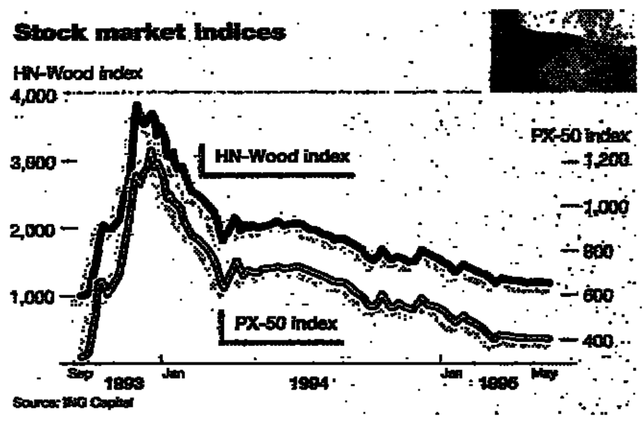
Some big independent investment funds are opposed in principle to this measure, however.

They argue that forcing traders to deal in a particular market is undemocratic and a sop to the PSE's shareholders – the big banks and brokerages. Some fear it would increase costs and force even greater disclosure of trading than exists in more sophisticated markets.

"In a free market the OTC has proved it is the market investors want to use," says Nigel Williams, chairman of Creditanstalt Investment Co. "If I'm forced to deal with a monopoly group of brokers, that is anti-democratic and anti-market."

Prague stock exchange: the market's structural problems are at last the subject of an intense debate

Stock market indices



Source: ING Capital

The finance ministry, which regulates the stock markets, is opposed to the ban on OTC trading and is expected to draw up its own measures for reform of the capital markets. The current securities law, drafted in the early days of the market, is outdated and dotted with loopholes that are often exploited by unscrupulous traders.

Mr Wood says one problem is "the constant, all-pervasive dishonouring of trades", in which one party, for whatever reason, refuses to honour a deal once entered into. The present securities law allows a party to withdraw from a deal if settlement is late, a loophole that brokers want to see closed as quickly as possible.

In a deal Wood & Co recently struck with a big Czech bank, the bank pulled out when settlement was delayed. Such activity has cost Wood & Co $1.5m in the past two years, says Mr Wood.

"It is the nightmare of every honest broker in the Czech Republic," he adds.

Yet in other areas the market has made great strides forward. The bond market has become an increasingly important source of capital vehicle and new issues are usually over-subscribed.

The flow of information on companies is also improving, with a string of results in the past three months.

Figures from high capitalisation stock such as CEZ and SPT Telecom were well received but the market's wider worries kept share prices from responding.

Since a dearth of accurate information has up until now been a dampener on prices, this augurs well for the future. "There is a distinct relationship between information and prices," says Roman Culik, deputy director of investment banking at Komercni Banka.

But he adds that the new securities law needs to strengthen reporting requirements, and that it is not enough for analysts to be forced to rely on annual reports to reach conclusions on companies they may recommend for investment.

There is, of course, no guarantee that a more transparent market will immediately mean higher share prices. Analysts say regulatory concerns surrounding electricity and telephone charges need to be clarified before the share prices of CEZ and SPT Telecom, the market's two biggest issues, will rally, which could keep the main market indices depressed.

The biggest block on the market is the reluctance of the investment funds to sell. Ales Barabas, board member at Zivnostenska Banka responsible for investment fund operations, believes that the funds are caught between becoming true portfolio investors or long term strategic shareholders.

"I am convinced that we can get higher liquidity, without foreign investors, if they can distinguish between the two," he says.

If the authorities succeed in establishing a new set of ground rules for the market's operations this dilemma could be substantially eased.

Profile: Skoda Plzeň

Ambitious plans about to be put on trial

One of the biggest tests of whether a sprawling communist-era engineering conglomerate can become a focused multinational is under way in the west Bohemian town of Pilsen, more famous for its beer than its high quality engineering.

Skoda Plzeň was founded in 1869 when Emil Skoda bought a small engineering company and turned it into one of the Hapsburg Empire's biggest producers of arms, steel forgings, and a vast range of heavy engineering products. After supplying the Nazi armies during the second world war the sprawling factory complex was 70 per cent destroyed by allied bombing.

It was rebuilt after the communist takeover of 1948 into a Soviet-style state enterprise which dominated the town and provided direct employment to nearly 40,000 workers. Its product range continued to span the spectrum of heavy engineering, from locomotives to turbines, machine tools to metallurgy.

But Skoda's vast market throughout the former Soviet world collapsed virtually overnight in 1990 and foreign engineering companies started sniffing around the plant to see what could be salvaged, and in many cases what could be closed down.

Siemens of Germany, with its own extensive nuclear engineering and electrical engineering interests, was a particularly assiduous wooer. But the Czech government, fearing that a foreign buyer would merely poach talent and ideas and then close down most of Skoda's product lines and disperse its skills, rejected foreign bids and opted for a non-conventional Czech solution.

The solution was to put the company's future into the hands of Lubomir Soudek, a self-confident former managing director of the Elitex textile machinery company and the ZBS engineering company in Brno, which employed 45,000 people and made 40 per cent of its turnover from military production.

Intense, mercurial and sure of himself Mr Soudek, a former "rank and file communist", emerged from the wreckage of the old system with an intimate knowledge of the industry, a full contacts book and a burning desire to run his own show.

Mr Soudek's big break came in 1992 when Karel Dyba, the economy minister, sought an entrepreneurial manager to ensure the survival of one of the country's biggest engineering companies. Mr Soudek came up with his own business plan and persuaded both Mr Dyba and prime minister Vaclav Klaus that he had the drive and managerial skills needed to lift this national asset from its knees.

So far Mr Soudek's strategy appears to be working. Sales have doubled since 1990 and profits are rising again after a slump

In return Mr Soudek demanded a controlling stake in the company. He eventually agreed to a more modest 20 per cent stake, which he financed by raising a Kc350m bank loan. The deal, he says, was personally approved by the prime minister.

Mr Soudek's investment has been a good one. Market value of the privatised company on May 9 was about $195m. Two other key shareholders, Komercni Banka and Investicni a Postovni Banka, have also seen the value of their own 10 per cent and 9 per cent shareholdings rise in value.

Both banks are also big lenders to the company. The state retains 16 per cent through the National Property Fund while two Slovak investment privatisation funds have 9.4 per cent between them. A further 32.6 per cent of the company's share capital is widely spread among thousands of small shareholders.

Mr Soudek is content to have the backing of big banks and a mass of powerless small shareholders. He is particularly pleased "that we do not have lots of funds on our board," he says. Investment funds are becoming increasingly influential shareholders in Czech industry, often restructuring and bringing in new management talent where they have the resources to do so. But not at Skoda. With the present share ownership structure Mr Soudek runs the company his way. "I must be able to get my decisions through. Otherwise there is no point in being chief executive officer," he says bluntly.

Exports are a crucial element in Skoda Plzeň's survival plan. Last year export sales more than doubled to Kc5.9bn and further export-led growth is essential if the company is to enter the big league of global engineering groups. In a presentation to banks on April 5, the company forecast that by 1998 group turnover will have tripled to Kc51bn, exports will have risen five fold to Kc30bn, and pre-tax profits will have risen to Kc2.1bn.

Sales have doubled since 1990, productivity has quadrupled and profits are rising again. After a fall in pre-tax profits from Kc507.3m to Kc315m in 1993, earnings recovered last year to Kc525m on sales of Kc16.5bn.

Despite last year's 58 per cent jump in profits this still represents only a 3.18 per cent return on sales, well below the 1990 pre-tax level of Kc706.2m on sales of 9.2bn.

But bank debt has been more than halved to Kc2.1bn since 1992 and productivity has risen sharply. Employment has fallen from just over 25,000 in 1992 when Mr Soudek took over, to 19,107 last year.

Mr Soudek's latest move is back into south-east Asia and China, where Skoda remains a familiar name. He recently set up a joint venture in China to make turbines for smaller power plants, reached agreement on a machine tools joint venture and signed a contract for an automotive deal. "Our deals are in the tens of millions of dollars range so far but our goal is to pull off deals in the $100m range," he says.

He is also taking Skoda back into other traditional markets. Skoda's latest contract, signed at the end of April, is with VMZ, a Russian engineering group, to make trolley buses for the Russian market.

So far Mr Soudek's strategy appears to be working. Yet Skoda's real test is still to come. As Skoda Plzeň pushes further into export markets it will find itself up against powerful multinationals such as Siemens, Westinghouse and Asea Brown Boveri. Further cost-cutting and streamlining of what is still an unwieldy group will be needed. To keep pace "the restructuring of Skoda will continue", Mr Soudek says. "There will be more change in the search for greater productivity."

Vincent Boland and Anthony Robinson

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Chances are it's not Czech: although on Germany's doorstep, producers lack marketing resources *Tony Andrews*

The beer industry has yet to realise its potential

Global profile eludes the brewers

At first glance, the Czech beer industry has everything going for it. It has a long and illustrious history stretching back nearly 1,000 years, and two of the world's best-known beers, Budweiser and Pilsner, are named after its pretty Bohemian towns.

Its products have a premium image and command premium prices wherever they are sold abroad, and in any league table of the world's beer drinkers the Czechs usually come out on top.

Yet in 1994 this quintessentially Czech industry barely broke even. Many of the country's 71 breweries are cash-starved and fighting to maintain their positions in a fickle domestic market. A half-litre of beer in the Czech Republic often costs less than a bottle of water or Coca-Cola or a cup of coffee.

Production fell by nearly 10 per cent in 1993, to 17.8m hectolitres, and barely recovered last year, according to the Czech Brewers and Maltsters Association. "Image is one thing, reality is another," says Václav Vitovec, director of strategic development at Plzeňský Prazdroj, one of the country's big four breweries.

There are two reasons why Czech brewers, including the big ones, are not making money. The first is price: domestic consumers resist increases and change brand loyalty easily. Second is the cost of new production systems: state-of-the-art brewing technology is designed in the west and sells for western prices that Czech brewers can ill afford.

The fact that few inroads have been made into the potentially lucrative export market is not helping. "Breweries expanded capacity without finding new markets," says Vladimír Mőtlík, managing director of EPIC, the investment bank that has helped introduce foreign investment to the industry.

The fall in output in 1993, caused mainly by the introduction of value added tax and by the split with Slovakia, came about in spite of this expansion of capacity.

The domestic market is characterised by fierce competition, with small breweries undercutting the bigger companies on price. It is also divided along regional lines: only the two biggest breweries, Prazdroj and Radegast, can claim to have national distribution.

The crowded home market has heightened the importance of exports, yet even the big Czech brewers have a low profile internationally. This means marketing and distribution deals are expensive. Even though they are on the doorstep of Europe's main beer market in Germany and northern Europe, the Czech companies lack the financial resources to market their products themselves. Instead, distribution deals are signed with foreign companies that may often under-resource marketing efforts and take a slice of the profit.

The difficulties Czech brewers face in exporting is highlighted by the case of Slovakia, which until 1993 was a "home" market. Last year, according to figures from the Czech Brewers and Maltsters Association, Czech exports to its former sister republic fell by just over half, to 441,256 hectolitres. The devaluation of the Slovak koruna and a 10 per cent surcharge that the new country slapped on imports pushed up the price of Czech beer.

Although exports to Germany, the second biggest export market, were broadly unchanged and those to Russia and Britain – third and fourth respectively – rose sharply, foreign sales overall were just under 80 per cent of their 1993 levels – despite a slight rise in total production to 18m hectolitres.

Mervyn Childs, a director of Pražské Pivovary (Prague Breweries), in which Bass of the UK has a 34 per cent stake, believes prices rose last year by an average of 5 per cent, but inflation was 10 per cent. Like many of the Czechs who work in the sector, he says he rates Czech beer "ahead of all others, but it has got to start getting a sensible return on its investment".

Forcing prices up and keeping them that way is the biggest challenge the industry faces. In 1994 Prazdroj raised the prices of two of its three leading brands, Gambrinus and Primus, by a total of about 5 per cent, Mr Vitovec says. (The company's premium lager, Pilsener Urquell, one of the two most famous Czech beers along with Budvar, was not affected.)

The increases were staggered, with the final jump last December. Yet other companies did not follow suit and in April this year after a fall in sales – especially for Primus, a mass-market beer – Prazdroj reversed its December increase. Given these kinds of commercial pressures, it is hardly surprising that Prazdroj made profits of just Kc3m last year on turnover of about Kc4bn.

The entry of Bass into Prague Breweries, one of the big four breweries along with Prazdroj, Budějovický Budvar and Radegast, may help to change attitudes within the Czech brewing industry. Bass plans to invest up to £50m in its acquisition over five years, and, along with Austria's Brau-Union, which is acquiring Starobrno in Moravia, it remains one of the few foreign investors in the industry.

Most Czechs view their brewing industry as a national treasure, and, given its history and quality, it is hard to argue with is them. Hence the resistance to foreign domination in general and the protracted national debate over the future of Budvar, where a trademark dispute with the US brewer, Anheuser Busch, has delayed privatisation and left a question mark over its future. Yet, as Mr Vitovec acknowledges, brewing is now a global consumer industry in which trends are being set elsewhere.

Last year's foreign sales overall were just under 80 per cent of their 1993 levels despite a slight rise in total production to 18m hectolitres

Vincent Boland

Marketing experiment

Whether Czech beer can capitalise on its many advantages will be seen in the progress of a marketing drive currently under way in Britain for Staropramen, Prague Breweries' main brand. Staropramen has just been introduced into 5,500 off-licences and 1,500 pubs in the UK by Bass, backed by a £3.5m marketing budget.

With new, attractive labelling emphasising the beer's connections with the Golden City, Mr Childs is confident it will wow discerning beer drinkers in metropolitan Britain, though these are early days as yet. Italy is also a main target of the brand.

Other Czech breweries are watching the campaign with interest, and even domestic consumers will notice a difference – labelling on bottled Staropramen in the Czech Republic is also being given a facelift though the taste, of course, remains the same. Therein, perhaps, lies one secret of the industry's future success: don't change the product, change the packaging.

Another factor may lie in the Czech Republic's growing wealth. As wages rise – and the cost of public transport, utilities and food rises in tandem – higher beer prices may also become accepted.

After all, the country's pole position in the beer-drinking stakes is slightly misleading. The figure for litres of beer consumed per head does not make allowances for the millions of tourists for whom a visit to a Prague pivnice, or local pub, for a few cheap beers is as much a part of their holiday as a walk across the city's Charles Bridge.

TRADE NAME DEVELOPMENT

Company ICEBERG was founded in 1991. During a four year development, when it became a founder and an important element of the Czech economy - capital market, the company became well known in the financial society under the name Dominick and Dominick Praha a.s. Increasing capital power and importance of our company on a domestic capital market, the expected full convertibility of Czech currency in this year, the entry of foreign companies among shareholders, and our long term strategic goals resulted in a decision to enter and operate on the international capital markets under the name ICEBERG a.s.

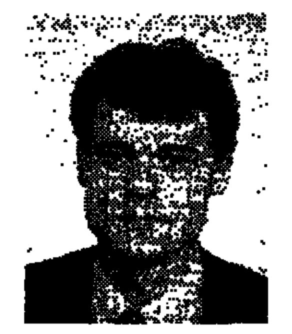
Company ICEBERG a.s. is currently the most capitalized non-bank brokerage company in the Czech Republic. It is intending to increase its equity of CZK 110.5 million (USD 4.4 million) to CZK 500 million (USD 20.0 million) by the end of 1996. Reaching this limit, together with other parameters, will enable us to carry out plans of obtaining a bank license. The company has generated an after tax profit of CZK 19.5 million (USD 750 thousand) in 1994, which represents 17.5 per cent of the net profit on equity. Our two main shareholders are the foreign companies, ICEBERG s.a. Switzerland and Mancini Investments Dublin.

ICEBERG
AKCIOVÁ SPOLEČNOST

SECURITIES TRADING DIVISION

TRADING ON PRAGUE STOCK EXCHANGE

This division provides execution of trades for the clients of our company. It is responsible for the fast and accurate processing of trade instructions. Buy and sell orders come from the capital markets division, direct from local investors and also from individual trading points in different parts of the country. The core activities of this division are conducted by a team of six brokers, each fully licensed by the Ministry of Finance of the Czech Republic. The activities of other departments within this division are consequent to their activities. DEALING - provides contact with main subjects on the market, arranges (mostly by telephone) specific deals, and seeks out the most advantageous and reliable counterpart from the supply and demand on the market with an emphasis on identifying large blocks or shares. STOCK EXCHANGE TRADING is a department which processes the individual instructions, on the basis of one daily fixing at 11 am. into a computer trading system networked with the Prague Stock Exchange. During the day the department provides trading at a fixed price through a system that the stock exchange offers in order to adjust ledges of supply and demand from the morning fixing. CLEARING AND SETTLEMENT is a department which settles trades performed on the stock exchange and OTC market. It arranges property transfers in the Stock Exchange Depository, Securities Center, and in a clearing bank. DEPARTMENT OF STOCK PAYMENTS processes the daily results of individual trades, prepares financial settlements of individual trades in local currency for the clearing bank records, and processes date for the main economic division of the company. STOCK EXCHANGE DEPOSITORY is a department which guarantees accurate correspondence of property accounts in the Securities Center, Stock Exchange Depository and company's central computer. LOCAL MARKETS manages the daily communication within an extensive network of trading points in the Czech Republic. They process the local trading points' demand and supply orders which are comprised mostly of requests from the small local investor.



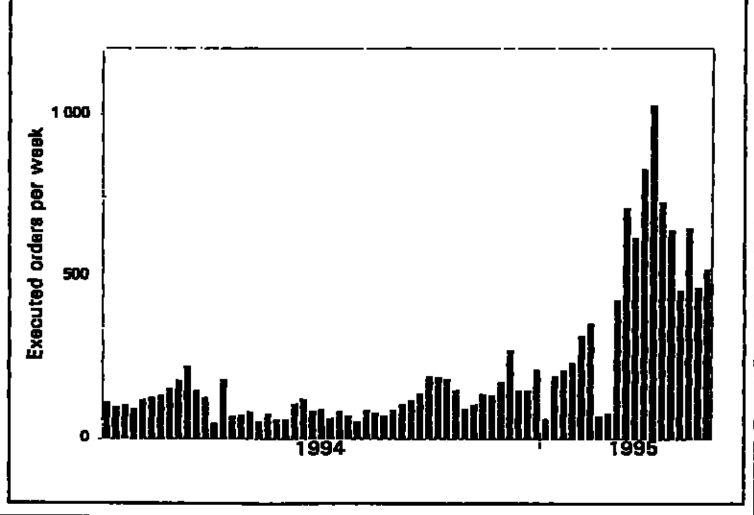
Mr Jiri Nadrasky

DEVELOPMENT OF TRADING OPERATIONS VOLUME

In 1994, our division processed and executed 5820 trading instructions; most of which were performed on the Prague Stock Exchange. The company's turnover for 1994, for stock exchange operations, was CZK 8.1 thousand million (USD 324 million). Buy and sell instructions on average exceeded our target boundary of 1 million Czech crowns. These trades reflected a 13 per cent share of the total turnover of the Prague Stock Exchange. Unprecedented growth is already indicated for our company in 1995, with 7771 trade instructions executed and turnover of our stock exchange operations exceeding CZK 15 thousand million (USD 610 million) in just the first four months.

EXPECTED DIRECTIONS OF FUTURE DEVELOPMENT

Our division is actively preparing for the increased volume in trading our company expects on the capital market. The realization of our objectives is dependent on the implementation of a multi-terminal input into the Prague Stock Exchange's trading system, upon finding a qualitatively higher form of cooperation with the Securities Center's Central Database, and finding within the legislative environment, the most appropriate means of implementing nominee accounts with standards common to more developed markets. Our division also strives to find a clearing method for the clearing of stock exchange operations with the presence of more than one bank; with the intent of expanding our cooperation within the largest custodians of the Czech capital market.



CAPITAL MARKETS

ANALYTIC BASE OF THE COMPANY

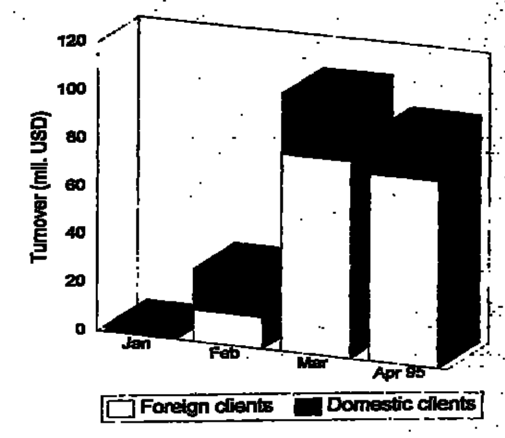
Fall 1993 indicated that large volume trading could be expected on the Czech capital market, especially if predictions of high levels of foreign investor interest were accurate. Our company, having decided at that time to qualitatively reinforce and expand the analytic branch of our operation, positioned itself through continuous staff additions to offer the highest quality service to larger clients based locally and abroad. A specific emphasis was placed on serving the needs of foreign institutional customers. By expanding the expertise of our capital markets division, we were soon able to satisfy the significant demands of local and foreign institutional clients. Several subdivisions were created in the process; greatly expanding the number of services we now provide. They include: PORTFOLIO MANAGEMENT - where capable individuals manage the portfolios of our individual and institutional investors; FINANCIAL department where the status of an accounts liquidity in a clearing bank is observed daily through an on line connection with Giro Credit, Praha, settlements are made on trades conducted in local currency, and exchange rate hedging and foreign currency operations are managed; SPECIAL OPERATIONS deals with non-standard market transactions such as repurchase agreements, options and futures, exchange rate arbitration, strategic acquisitions, investment into our own account, etc; FOREIGN CLIENTS OPERATIONS executes the daily instructions of our foreign clientele including buy and sell orders which are not related to the portfolio management activities of our foreign banking clients. This division is also responsible for supplying our clients with urgently needed information about developing situations on the market and notifying clients immediately when sought after securities appear on the market. RESEARCH makes fundamental and technical analysis of developments on the market, compiles customized research data, provides daily commentary of the events taking place on the Prague Stock Exchange, and continuously observes the market for primary issues and the introduction of any new securities.

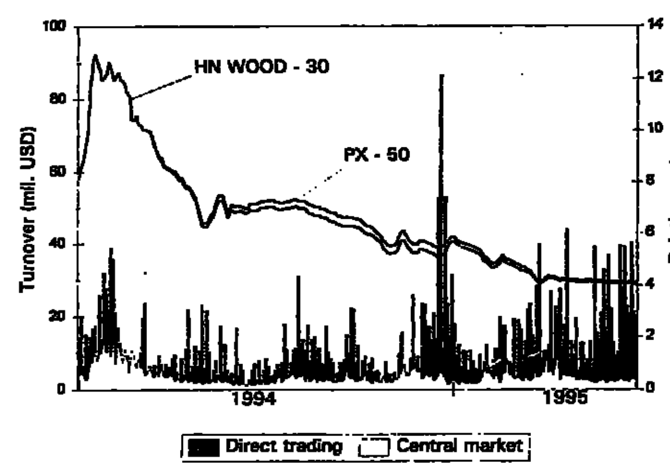
Mr Radek Peleska

REVIEW OF THE MARKET

Even a glance at selected indices of the Czech Stock Market (see graph) evidences that share prices have plunged continuously for nearly a year. Dramatic slides in share values are typical of nearly all newly developed markets in their initial stages of operation since shares prices are usually introduced with universally high values. With the onset of trading in late 1993 and early 1994, it was typical for shares to be traded at prices 10 and sometimes 20 times their nominal value. Naturally, steep price declines followed such a trading boom as more realistic values were realized. Consequently institutional investors disposed of large blocks of shares and large amounts of speculative capital began to leave the market. The small investor had nearly no chance of selling his/her shares because of the restrictions placed on trading which limited the margin of decrease a share price could be sold for (known as the supply ledge code 6).

When the HN Wood 30 index fell to a value of 2000 in February '94, where it hovered for over 3 months, it seemed that the market had finished reacting to the initial market trade activities experienced in the first months of trading on the Czech capital market. Many important foreign investors viewed this period as the anticipated mark of stablization. In depth analyses were conducted to evaluate perspective share selections, and all awaited the arrival of long term international portfolio investors.





Unfortunately, it became soon apparent the period of price stabilization was off in the distance as prices once again began to plunge in June 1994. It was in fact yet a full year away, until now, when it finally appears that prices have "bottomed out", and the weakness and strengths in the Czech capital market are fully exposed.

RISKS ON THE MARKET

Liquidity, functioning and market transparency are a few of the issues that challenge our company daily. We recognize the impact these conditions can have particularly on our relationships with foreign clients and therefore understand the added importance of, along with providing the highest standard of professional service, offering maximum flexibility, administrative simplicity and uncompromised reliability. Risks in delivery vs. payment are of a special concern (see graph indicating dollar turnover trends for this year). Unreliable partnerships cannot be afforded since we specialize in the trade of large blocks of securities on the Prague Stock Exchange and clear large dollar items through Giro Credit, Praha.

EXPECTED DEVELOPMENT IN 1995

This year we expect to concentrate our human and technical capabilities on increasing the volume of performed operations, maximising the number of processed instructions, and re-structuring the capital markets divisions to enable it to accommodate the requests of any investor regardless of the amount of investment capital or trade frequency intentions. Furthermore, we will continue to provide our employees with language and professional training in preparation for SFA licensing through the London based company BPP. Our company will soon be able to provide local clientele access to the most developed markets; an issue of growing importance as we approach the full convertibility of the Czech crown.

For detailed information feel free to contact us at the following numbers:

ENGLISH	Tel: 42 601 218 130 42 601 205 182 Fax: 42 601 207 898
GERMAN	Tel: 42 601 201 917 42 601 218 139 Fax: 42 601 207 898
FRENCH	Tel: 42 601 218 717 Fax: 42 601 207 898
CZECH/SLOVAK	Tel: 02 526 948 Fax: 02 526 949
OUR ADDRESS:	Hybernska 12 Praha 1, 110 00 Czech Republic Continental Europe

ECONOMIC DIVISION

ECONOMIC STATUS OF THE COMPANY

The company belongs to smaller companies by a number of employees. ICEBERG a.s. began its operation with 3 employees. It concluded 1993 with 7 full time employees, 1994 with 24 employees, and currently employees 30 people. The company maintains an organizational structure typical of a medium size brokerage firm. Further staff increases are anticipated particularly within the STOCK EXCHANGE ACCOUNTANCY department which deals with complex processing of stock exchange operations and calculates any outstanding debt or liability on behalf of our clients.

Ms Jana Chvatlinova

CORPORATE ACCOUNTANCY is now a separate department which processes trade operations that are carried out on the company's own account and reviews all accounting documents which pertain to the company. ECONOMIC REPORTING compiles exact economic data reflecting the company financial situation upon each months end. This department is responsible for monitoring, on a daily basis, the company's economic position by compiling and analyzing the data received from each of the separate divisions within the company.

DEVELOPMENT IN THE LEGAL ENVIRONMENT

In the past five years, many amendments were made to Czech law. The Czech tax system witnessed the most changes as rules were often amended several times within one year. These external conditions imposed on our staff the need for un-compromising expertise and flexibility. After the establishment of the Czech capital market, a completely new accounting and tax system was needed to specifically govern securities trading. Based on just a general instruction from the Ministry of Finance, ICEBERG a.s. created a complete system of accounting methods for recording the trade of securities. This new system must be continuously complemented with the growth of the Czech capital market.

It must accommodate the expansion of the types of transactions offered on the market, and their derivatives. Furthermore, it must stay synchronized with the constant changes in Czech tax law and accounting regulations.

DEVELOPMENT OF THE VOLUME OF ACCOUNTING OPERATIONS

900 accounting documents were in our records in 1992, 3000 documents were filed in 1993, and over 12000 documents were recorded in 1994. The number of client accounts we maintain has also grown significantly within the past two years. Previously, the financial funds of all our clients could be maintained in one general account. Such growth spawned the need for a new system of accounts whereby each institutional client now has its own local currency account. Foreign clients have, in addition, their own foreign currency account. Our new accounting records system allows us to immediately orient the financial position of each individual client. We intend to connect the whole accounting records system with the records systems in our other divisions before the end of this year. Our goal (which is still unique to the area of securities trading in the Czech Republic) is real time data processing with an ability to provide a company's top management with the timely feedback of information necessary for effective management and decision making activities.

Kevin Done finds western car components suppliers rushing to establish themselves in the country

Magnet for foreign investment

The automotive components industry has become one of the main magnets for foreign investment in the Czech Republic.

Encouraged by Volkswagen's takeover of Skoda in 1991 many western components suppliers have followed in the wake of the German carmaker.

The automotive sector accounts for about 22.5 per cent of all foreign direct investment in the country, ahead of any other industry. More than 40 joint ventures have been established with existing Czech suppliers, along with nearly 20 new plants built on greenfield sites.

The initial attraction for western components suppliers was the opportunity of extending their existing relationships with VW, Europe's biggest car producer, into the Czech Republic. Several are also finding, however, that the country is an attractive low-cost source from which to supply parts to other carmakers in west Europe as well as to other VW group operations.

Progress has not always been smooth for the western investors. "We see it as a long, hard slog," says the market development director of a leading west European components maker, which now holds a majority stake in a joint venture in the Czech Republic. "There is a big lack of experienced Czech managers, and the good ones are attracted quickly to service industries. There is a real resource problem and it is difficult to get managers to work in manufacturing."

Some companies under-estimated the scale of the training and education programmes needed to raise quality and productivity to western standards, and have found themselves at the same time under heavy pressure from Volkswagen to lower costs.

"We have all come to realise that taking a strong interest in a previously communist industry does not mean you can wish away decades of practices overnight," says the director of one components joint venture.

"When you talk of total quality and just-in-time delivery, it is easy for local managers to say yes, we understand, but when you come to put it into practice it's different."

Most ventures are growing, however, to meet Skoda's rising domestic production and to serve carmakers in west Europe, and some have already been able to raise productivity to German benchmark levels, while taking advantage of labour costs that are a tenth of German levels.

On the debit side, western producers are worried by increasing absenteeism at their Czech operations, in particular in areas close to Prague, where unemployment rates are barely 1 per cent. At the same time, while most companies have been privatised quickly, progress on restructuring has failed to keep pace.

The list of western components producers in the Czech Republic already includes many of the leading US and west European producers led by groups such as TRW, ITT, Johnson Controls, General Motors and Ford from the US, Bosch, Kolbenschmidt, Hella, Varta and Continental from Germany and Lucas and T&N (Goetze) from the UK.

The development and restructuring of the automotive components sector has been led by VW. It has worked hard to attract western components makers in order to improve the competitiveness of Skoda's domestic supply base.

"We are only competitive if the supplier industry is competitive. We must help this restructuring," says Volkhard Köhler, deputy chairman of Skoda Automobilova, and the man installed by VW to lead the transformation of the Czech carmaker.

Progress has been rapid since the group held two conferences in Prague and Bratislava, the Slovakian capital, in early 1991 to introduce Czech and Slovakian components producers to potential partners from VW's existing supplier network.

Last year Skoda's purchasing bill for production materials and components totalled Kc19.6bn of which more than 80 per cent came from the Czech Republic (Kc14bn) and Slovakia (Kc2.1bn). Already about 44 per cent of Skoda's total purchases are from 42 joint ventures that have been established in the two countries by western producers, however, and a further 6.5 per cent came from 17 greenfield site operations.

The introduction of western partners has been crucial to VW's strategy for raising the quality and the productivity of its Czech and Slovak suppliers and for lowering its purchasing costs. The group employs a 30-strong team in its purchasing operations with the crucial task of raising the quality and competence of the domestic supply base.

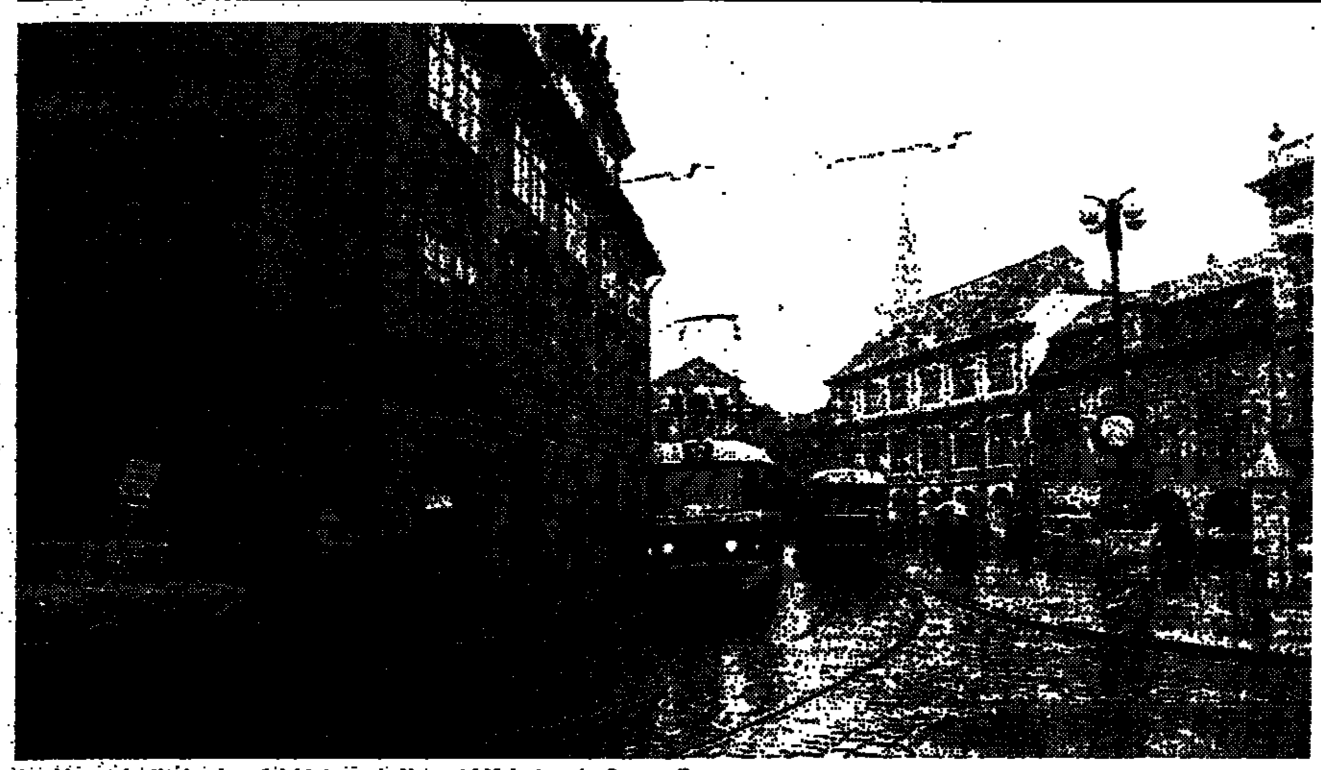
The restructuring of the Czech components sector is far from complete, but VW and Skoda have made significant progress.

Of 134 components plants audited for quality by Skoda in 1993 only two came into the top "A" category, but in a similar audit of the same plants earlier this year 27 qualified for the top ranking. Equally the number of plants languishing in the lowest "C" category had been reduced from 84 two years ago to 19.

The tough process of weeding out the least competitive domestic suppliers is only likely to intensify in the next two years. As Volkswagen integrates the Skoda product range into its overall VW group car development and engineering system, it is inevitable that the local Czech and Slovak content of Skoda cars will be reduced, and that the imported content will rise. The new Skoda range to be launched towards the end of 1996, for instance, will be based on the same so-called "A" chassis platform as a new small Audi, to be unveiled next year, as well as the next generation Volkswagen Golf.

Mr Köhler argues, however, that the development of such common platforms for the group's Audi, VW, Seat and Skoda marques will open up export opportunities for competitive Czech suppliers, as the group moves to so-called "global sourcing" in the search for new low-cost suppliers.

He says that the process is already at work. "The more A-category suppliers we have, the more we can get them into the VW group network." Contracts already awarded guarantee Czech components exports to VW plants abroad worth DM300m by 1998. The increase in the value of such export contracts will more than offset the lower Czech content of future Skoda cars, says Mr Köhler.



Creaking under the burden of debt: trams in Namestri Malostranske Square, Prague — UPP

New owners are to restructure the ailing CKD engineering group

Shock of the free market

Creaking under an onerous debt burden and battered by three successive years of losses, CKD Praha Holding, the heavy engineering group traditionally at the heart of Czech industry, is struggling to come to terms with life in the market economy.

Its industrial capacities for products ranging from trams and locomotives to compressors, diesel engines, and electrical generators, motors and transformers were built up to serve the enormous markets of Comecon, the former communist trading bloc.

The collapse of these economies wiped out a large part of its sales and left it with severe problems of obtaining payment for equipment already delivered, in particular to the former Soviet Union.

Since late last year the group has come under new ownership, however, and a fresh management team has been drafted in to undertake an urgent programme of restructuring. The task of restoring the fortunes of one of the country's most tradition-laden industrial groups has been taken on by Inpro, the Czech engineering and management consultancy, which emerged as the majority owner in June last year.

Inpro, itself privatised earlier through a management buy-out, paid close to Kc1bn to acquire a 51 per cent stake from the state in a public tender offer.

CKD Praha Holding, formerly the CKD group, which had a workforce of 30,000 at its peak in the 1980s and still had about 25,000 employees in 1989-90 at the time of the "velvet revolution" has been reduced to a workforce of 12,000 during the past five years. Some of its operations have been separately privatised, some closed and the workforce has been cut back.

Last year CKD suffered a loss of Kc360m on a turnover of Kc7.1bn, but the new management team believes the group can be returned to profit this year. According to Petr Formanek, member of the board for management strategy and part of the 30-strong team brought in from Inpro, CKD is forecasting a profit of Kc260m this year helped by a 37 per cent increase in turnover to Kc9.7bn.

Exports account for about 40 per cent of turnover with the most important markets still to be found in the former Soviet Union in Russia, Ukraine, Belarus and Kazakhstan, which make up half of CKD's foreign sales.

The group says that it is experiencing some upturn in orders from the countries of the former Soviet Union, including for trams from Ukraine, where it has a 34 per cent stake in a joint venture, which assembles trams from parts supplied by CKD.

It has embarked on a four-year restructuring programme. In early measures it has closed down a foundry and has merged two of its service divisions in Prague. Mr Formanek says the group is also seeking to dispose of assets unconnected to the main businesses including several recreation centres, three castles and a stock of 3,000 apartments.

"We must concentrate our production," Mr Formanek says. "A lot of our factories are too big, with overcapacity associated with our earlier exports to the Soviet Union. These markets have disintegrated but our production base is still there."

In other areas the group must still invest, for example in CKD Tatra, its prestigious tram subsidiary, which claims to have made a third of the trams in use around the world. "CKD Tatra could have a very prosperous future, but it needs an investment of about Kc1bn by 2002," he says.

CKD has ended the joint venture originally agreed in principle in 1993 between CKD Tatra and AEG, the electrical engineering subsidiary of Daimler-Benz of Germany, in order to regain control of the tram operations, which are regarded as one of the group's most promising business areas.

"Many foreign companies came to the Czech Republic with one aim: to take part in our companies, to control the business, cancel R&D and transfer research work to themselves and to use us as cheap labour," says Vaclav Brom, group spokesman.

"We will never agree with such attitudes. We are ready to co-operate with western partners, but under equal conditions. We are continuing to co-operate with AEG on a commercial basis case by case."

While many of the CKD plants are antiquated, CKD Tatra is operating from a huge modern plant constructed during the 1980s in the Prague suburb of Zlicin and was conceived before the revolution to build 1,800 trams a year.

The new plant built its first tram in 1990, but the collapse of communism has presented it with appalling problems. In 1993 when CKD Tatra's fortunes were at their lowest ebb it built only 20 trams.

Gradually orders are picking up, however, and Vladimir Klabik, the deputy plant manager expects to build 270 trams this year – up from 70 in 1994.

Domestic orders are picking up with 80 trams for Prague – the first order from the capital for six years – 20 for Brno and 10 for Ostrava, in addition to orders from Ukraine, Belarus and Uzbekistan.

One of the most urgent tasks facing the new management team has been to arrange a restructuring of its mountain of debts with Kc6bn of bank debts and Kc4bn owing to other suppliers.

The group's financial problems are aggravated by the burden of about Kc6bn of unpaid receivables, most importantly from Russia, which alone accounts for Kc3.5bn of the money owing. The group has still not been paid for 200 locomotives delivered to Russia in 1991.

Kevin Done

Kevin Done examines progress being made at Skoda Automobilova

Proud heritage is revitalised

The prison block that once housed part of the labour force for the old Skoda car plant has been demolished. In its place stands a gleaming white and grey building, finished in recent weeks, that will soon house Skoda Automobilova's new paint plant. Nearby, earth-moving equipment is hard at work preparing the foundations for a new car assembly plant. This is the face of Czech industry in transition.

The rusty pipework and the tall chimneys of the factory-run heat and power plant – the ubiquitous landmarks of every Czech industrial town – still frame the Skoda plant. As do the grim rows of concrete apartment blocks at the edge of Mlada Boleslav, an industrial city 65kms north-east of Prague.

But in their midst the new Skoda is taking shape. The Czech carmaker – its once proud engineering heritage reduced to the butt of cruel jokes in some western markets during the communist era – is being revitalised as the fourth marque of the Volkswagen group, alongside VW itself, Audi and Seat.

Last year's production of 174,000 cars, depressed by the changeover to a new model range, is forecast to rise to 210,000 this year and to about 350,000 by the late 1990s, supported by the launch of a second car range at the end of 1996.

Much is riding on the success of the transformation process at Skoda. With a turnover of Kc35bn ($1.3bn) it is the second largest Czech industrial group after CEZ, the Czech electricity utility. It accounts for 5 per cent of the Czech Republic's total exports – 14 per cent of the country's exports to the UK and 10 per cent of exports to France – and it employs directly and indirectly (through its components suppliers) 3 per cent of the working population.

The decision by Volkswagen, Europe's biggest carmaker, to spend DM1.4bn ($972m) to acquire a 70 per cent stake in the Skoda car operations was a pioneering step, when the deal was agreed four years ago, and it remains the single biggest foreign direct investment.

"It was hugely important for the then Czechoslovakia and for the region. It put Czechoslovakia on the map as far as foreign direct investment is concerned," says Daniel Arbess, executive partner in Prague for White & Case, the US law firm and an adviser to the government on the original deal.

The group's immediate fortunes are riding on the success of the recently launched Felicia

Given the domestic significance of the project, however, VW's handling of the business and its relationship with the Czech government, still the minority shareholder in the joint venture, has at times been surprisingly abrupt.

The early euphoria generated by the deal was dispelled for good in late 1993, when VW abandoned without warning a prestige DM1.4bn loan facility for Skoda only hours before it was due to be signed. VW's withdrawal, made without prior word to the Czech government, sent shockwaves through Prague and soured a relationship that had begun with such high hopes.

Fifteen months of laborious, painful negotiations between Prague and Wolfsburg, the VW headquarters, resulted in a revised agreement at the end of last year, however.

The turbulence between VW and the Czech government does appear to have soured public attitudes towards foreign investment, but it is a reaction that government ministers are keen to overcome.

"Overall, this joint venture has been a success," says Karel Dyba, Czech economy minister. "There have only been minor problems, and we have always found solutions. There is not the perception that the Czech Republic has been sold short. At the beginning of the relationship there was more passion, but now there is more reason. Both sides are winning."

'There have only been minor problems, and we have always found solutions'

The original estimate of a DM9.5bn, 10-year investment programme for Skoda has been cut back to about DM3.7bn for the years 1991-2000. The capacity of 390,000 first mooted by VW has been cut to a plan to create a capacity for 340,000 cars a year, and the plan for a new engine plant has been dropped.

Volkswagen is pushing ahead, however, with the development of a second Skoda car range to be launched in late 1996, and it will maintain and further develop the existing 1.3 litre Skoda engine family.

It is building the new paint plant at the heart of the main Skoda facility at Mlada Boleslav, with a planned eventual maximum capacity for processing 1,600 cars a day or close to 380,000 cars a year, working three-shifts, around the clock. And it is building the new assembly plant.

"For the new car we will start with a capacity of about 300 a day (70,000 a year), but we can expand to about 800 a day (185,000 a year) if the market demand is there," says Gerald Weber, Skoda Automobilova technical director.

The group's immediate fortunes are riding, however, on the success of the recently launched Felicia small family car, a radical updating of the aged Skoda Favorit.

It is examining a strategy for expanding Skoda into other markets in central and east Europe through the establishment of local kit assembly plants to overcome high import tariffs, and it will assemble up to 8,000 cars this year in Poland at a VW group joint venture plant in Poznan.

The German carmaker is also pressing ahead with planned reforms at Skoda, which in some respects are more daring in scope than anything it is attempting at its domestic plants – in particular in regard to the integration of components suppliers into its factories.

Skoda is established as the low-cost car producer in the VW group, but there are concerns about rising absenteeism and lack of labour mobility in the Czech Republic. "We must get lean structures," says Volkhard Köhler, Skoda Automobilova deputy chairman. "We have to look intensively all the time to cut costs."

While production is set to rise sharply during the next three years – from 174,000 in 1994 to about 350,000 in the late 1990s – Skoda is determined to reduce its workforce further in order to improve productivity. The number of employees is due to fall from 17,048 in 1993 to 14,460 by the end of 1995.

Truck makers are still recovering from the loss of Comecon markets, says **Kevin Done**

Not yet out of the woods

Commercial vehicle makers in the Czech Republic are treading a tightrope, as they struggle to find a route to survival.

Operating in a European industry beset by overcapacity and still battling to overcome the heavy losses of recent years, Czech truck producers have failed to find partners in west Europe.

For Tatra and Liaz, the Czech heavy truck makers, the future remains clouded by the heavy debts and the lack of short-term finance. Both suffered losses last year, and both have still to come to terms with losing their previously captive markets in communist eastern Europe and in the former Soviet Union.

The uncertainty surrounding Liaz, once one of the leading makers of on-road heavy trucks for long distance haulage in eastern Europe, is compounded by government moves to sell off a majority 52.5 per cent stake in the group through a public tender offer, to be completed this summer.

Tatra, the specialist producer of heavy off-road trucks and traditionally a leading supplier of trucks to the Russian oil and gas industry, was one of the earliest Czech companies to be virtually 100 per cent privatised.

Its new owners, led by a group of five investment funds, are still struggling with its deep-seated financial problems, however. It is currently locked into negotiations with its banks over a further restructuring of its debts, which total about Kc3.8bn.

By contrast, the plight of Avia, the Prague-based light truck and heavy van producer, may soon be eased. Daewoo, one of South Korea's biggest industrial groups and its third largest carmaker, is about to acquire a majority stake in a joint investment with Steyr-Daimler Puch, the Austrian engineering group.

The acquisition depends on the Korean group reaching an agreement with the Czech National Property Fund over liabilities for environmental damage at Avia, but Daewoo hopes a deal will be finalised shortly.

The demise of Tatra has taken its toll on the small industrial town of Koprivnice

Production by the three truck and van makers has plummeted since the collapse of Comecon, the former communist trading bloc, from 50,300 in 1989 to only 5,360 last year, although the industry believes that demand has begun to recover this year, albeit from a very low level.

Tatra suffered a loss of about Kc700m last year, its third successive deficit, following a loss of Kc2.26bn in 1993, according to Karel Beneda, who took over as Tatra chairman and chief executive last autumn. His appointment followed the short-lived and controversial management of Tatra by a trio of US executives led by Gerald Greenwald, the former Chrysler executive and now chairman and chief executive of UAL, the holding company for United Airlines.

Tatra production, running at about 15,000 trucks a year at the end of the 1980s, fell to only 1,400 last year. Output had to be halted completely for periods during 1993 and 1994.

The group, which had a workforce of about 15,000 before the fall of communism, has been forced to undertake a drastic restructuring, as it tries to bring its operations into line with its modest sales. Most of the top management has been changed since September last year, following the departure of the US executives.

The Tatra workforce has been more than halved to only 7,200 with the latest dismissal of 1,200 workers taking place at the beginning of this year. The demise of Tatra has taken its toll on the small industrial town of Koprivnice, in northern Moravia, where the truck maker dominates the local economy. Unemployment in the area has grown to about 9 per cent compared with levels of 1 per cent or less in industrial towns around Prague.

But Mr Beneda believes that truck output reached its low point in 1994 at 1,400 and says that production could increase to about 2,500 this year helped by a rise in sales from 1,900 last year to about 2,500 in 1995.

Tatra is still dependent for 90 per cent of its sales on foreign markets, chiefly in Russia, China, India and the Middle East with 60-70 per cent of production still going to Russia. Crucially "the Russian market has stabilised and orders are going up again", says Mr Beneda.

At Liaz – where production fell to the lowest point in its history last year at 943 trucks compared with 11,000 in 1990 – demand has also begun to pick up modestly, led by the home market, but the company's ability to raise output is constrained by its shortage of working capital.

"We have orders and the technical capacity to produce more, but we don't have enough money to finance the production," says Jaromir Jiricny, Liaz general director. "Our output is limited by our financial resources. This is our biggest problem."

Mr Jiricny believes that the banks are unwilling to increase their exposure to Liaz, until a new majority shareholder emerges from the current public tender offer.

Bids must be made in mid-July and the result of the tender should be known before the end of August.

At least for Avia, a new partner has emerged in recent weeks in the shape of Daewoo, the Korean vehicle maker, which is seeking to expand aggressively in Europe. It has entered into a car manufacturing joint venture in Romania and is in advanced negotiations on a joint venture in Poland.

In a consortium with Steyr-Daimler Puch, Daewoo won a public tender to take over the state's 34 per cent holding in Avia for Kc180m. It has since reached agreement with a number of investment funds to acquire an additional 16.2 per cent for Kc206.5m.

According to Ko Ju-Yung, director of Daewoo's Prague office, the Korean group is aiming to triple production of Avia's current range of light trucks and heavy vans from 4,000 this year to about 12,000 a year by 1997. About $60m would be invested to modernise the products and increase production capacity.

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Profile: Viktor Kozeny

Privatisation pioneer

Viktor Kozeny, the whizz kid of Czech privatisation, still makes his presence felt in Prague, even though he now lives several thousand miles away from the scene of his triumph in the sunnier surroundings of the Bahamas.

His Harvard group of investment funds is one of the most influential – arguably the most influential – of the 350-odd funds that have become shareholders in Czech industry as a result of coupon privatisation. Other fund managers considering whether to sell or buy shares ask themselves what he would do in their shoes. Harvard's brokerage arm is a main trader on the Prague stock exchange, and his company's research arm is one of the most highly regarded in Prague.

Mr Kozeny used the marketing skills he learned during a spell in the US in the late 1980s to convince sceptical Czechs of the benefits of the government's mass sell-off programme when it was launched in 1991.

He offered to invest the coupons, for which citizens paid Kc1,000 each, on their behalf in exchange for guaranteed returns of up to 1,000 per cent. He ploughed the coupons his funds received into shares in 50 of the country's top companies, other fund managers followed suit, and the privatisation programme took off.

For the past 18 months, however, he has been living in self-imposed exile abroad, first in Zurich and now in Nassau. In 1993 he accused a former Czechoslovak secret service agent of blackmail. The agent, Vaclav Wallis, accused Mr Kozeny in turn of blackmailing him. Mr Wallis was convicted of abuse of office and jailed but is now free again.

The mass privatisation programme has been of benefit to many and painful for some

Mr Kozeny left the Czech Republic during the trial early last year and has not returned since. An investigation into his role in the "Wallis Affair", as the case is known, remains inconclusive. The main allegation made against him is that he received inside information from Mr Wallis to allow him to build up big stakes in the most important Czech companies ahead of other funds. That charge has not been proven.

Mr Kozeny is at the very least a victim of his own success. The mass privatisation programme has been of benefit to many and painful for some. His youth and brashness have not sat easily in the reserved and secretive world of Czech business. He and his family indirectly own 25 per cent of the assets of Harvard's portfolios, and he is estimated to be worth $200m. In a country where success often seems to be something to be endured rather than celebrated, Mr Kozeny's love of publicity raised hackles.

Some fund managers also resent his identification with the success of the coupon programme. "Other funds did what he did and are just as successful," says a rival. Fund management companies such as those operated by the big Czech banks wield at least as much influence as Harvard does, but none is run by someone as flamboyant as Mr Kozeny.

Mr Kozeny continues to run Harvard from his new base, but friends in Prague privately say that it has lost its direction. Petra Wendelova, Harvard's highly regarded director of fund management and Mr Kozeny's key official at the group, was recently snapped up by CS First Boston to head its fund management business.

Prague's financial circles are also maturing, and its pioneering days are clearly behind it.

Mr Kozeny has expanded his interests to China and other frontier markets. If he were to come back to his homeland now he might find that the opportunities it offers are not as attractive as they were.

Vincent Boland